NOVA SCOTIA BUDGET
ASSUMPTIONS AND SCHEDULES

FOR THE FISCAL YEAR 2006–2007

THE HONOURABLE MICHAEL G. BAKER, Q.C.
MINISTER OF FINANCE

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Report of the Auditor General

2006–2007

2007-04803/

NOVA SCOTIA

Office of the Auditor General

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Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2007 used in the preparation of the May 9, 2006 Budget Address

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2007 (the 2006-07 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 30, 2006 or earlier. I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the 2006-07 revenue estimates. My examination did not include, and my opinion does not cover, the budget speech, the 2005-06 forecast or the 2006-07 expense estimates. Except as explained in the following paragraph, my examination was made in accordance with the applicable Assurance and Related Services Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

I was not able to obtain sufficient appropriate information to complete my review of recoveries, user fees and revenues of certain governmental units. As a result, I have been unable to form an opinion as to the reasonableness of the estimates of these revenues or the support for their underlying assumptions.

Further, sinking fund earnings and revenues of certain governmental units are excluded from the revenue estimates and are included elsewhere in the estimates. As a result, the revenue estimates are not presented on a basis consistent with the consolidated financial statements. In addition, certain recoveries and user fees are excluded from the revenue estimates and netted against expenses elsewhere in the estimates. To the extent of these exclusions, the 2006-07 revenue estimates are not presented in accordance with generally accepted accounting principles.

In my opinion, except that certain revenues have been excluded from the revenue estimates as noted in the preceding paragraph, and except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to obtain sufficient information with respect to certain revenues, as discussed above,

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described to us by departmental management, and provide a reasonable basis for the 2006-07 revenue estimates; and
- the 2006-07 revenue estimates as presented reflect fairly such assumptions; and
- the 2006-07 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2006-07 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly I express no opinion as to whether the revenue estimates will be achieved.

JR Lapointe

Jacques R. Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
May 5, 2006

KEY ASSUMPTIONS —
MARCH 30, 2006

NOVA SCOTIA

Key Assumptions

Approved by Executive Council on March 30, 2006

Economic Performance and Outlook

National Economic Assumptions

Canada achieved a real GDP growth rate of 2.9 per cent in 2005, the same growth rate for 2004. The Canadian economy had two major influences in 2005—rising commodity prices and an appreciating exchange rate. The net result of this combination was strong performance in the energy and resource sectors, especially in Western Canada, against a slower pace for the manufacturing sector facing the strong dollar in Eastern Canada.

The driving force behind Canada's 2005 economic performance was the strength in domestic demand of the economy, mainly due to consumer spending and business investment. On the international side, imports closed the gap on exports—as growth in imports outstripped growth in exports. The high dollar helped to drive import prices down, leading to an increased demand for imports. Consumer strength was evident in personal expenditures on goods and services, which increased 5.6 per cent in 2005, and in retail sales, up 6.3 per cent. Driven by low interest rates, residential capital investment rose 7.2 per cent. Non-residential construction was up 11.9 per cent, partially as a result of 10.7 per cent growth in corporate profits before taxes. Also adding to growth in 2005 was government spending on goods and services, which increased 5.6 per cent, and government fixed-capital formation, up 6.2 per cent. Business machinery and equipment investment grew 7.3 per cent as a result of a favourable exchange rate and strong profit growth in 2005.

The resilience and strength of the Canadian economy was a major factor in a strong labour market in 2005, producing 222,700 jobs. The unemployment rate fell to 6.8 per cent in 2005, as the labour force grew at a slower pace than employment. The labour force expanded 0.9 per cent, while employment grew at a 1.4 per cent clip in 2005. Employment growth is reflected in the 5.4 per cent increase in labour income. Some of this increase is also reflected in wage adjustments for the military, which saw a 9.2 per cent increase in wages and salaries. Strong labour income growth supports the personal income increase of 4.9 per cent.

Canada's main trading partner, the United States, had its real GDP grow 3.5 per cent in 2005, which is a slower pace than the 4.2 per cent growth for 2004. This slower pace, along with the appreciation of the Canadian dollar, can be seen in export sales. In current dollars, export sales were up 5.2 per cent in 2005 compared to 6.8 per cent in 2004. Adjusting for the higher value of the dollar gives a real growth for export sales of only 2.3 per cent for 2005.

Canadian real GDP growth is expected to increase marginally to 3.0 per cent in 2006 and fall back slightly to 2.9 per cent in 2007. This forecast assumes continued growth in domestic demand coupled with net exports continuing to exert a somewhat small drag on growth. There are several key factors behind this economic outlook.

The United States economy is expected to slow in 2006, with US GDP predicted to increase by 3.3 per cent in 2006. Towards the end of 2005, the Canadian economy began to display signs of weakening as a result of the continued appreciation of the Canadian dollar. Canadian real GDP expanded 0.6 per cent in the fourth quarter of 2005 following growth rates of 0.9 per cent for the previous third and second quarters. Business inventories continued to fall in the fourth quarter, supporting continued growth going into 2006. A low inflation

environment should pave the way for a low interest rate environment with expectation of only modest increases in interest rates, which should stimulate business investment. However, the twin budget and current account deficits in the US will place upward pressure on the exchange rate. With the expectation that commodity prices will remain somewhat buoyant but down slightly, the exchange rate should hover around 85 cents in 2006. As long as commodity prices remain high in relative terms, especially energy prices, they will offset the negative impact of a high exchange rate environment.

With the Canadian economy expected to perform at its real potential growth rate again in 2006, there will be little chance for inflation to become a serious threat to monetary policy. The Bank of Canada anticipates only modest increases. While low interest rates should stimulate business investment in Canada in 2006, it will be difficult to maintain a high level of activity into 2006. Residential investment has been strong for a number of years and is expected to cool down over this year and into next. While corporate financials remain healthy, the pace of corporate profit growth should level off over the next two years, as commodity prices plateau and exports keep pace with US nominal GDP growth. While consumer-spending growth will remain strong, any reduction in housing demand will reduce the need for consumer durables. A dip in new motor vehicle sales could put downward pressure on consumer durables, but continuation of a low interest rate environment along with continued industry incentives due to structural changes in the auto industry could easily offset this.

Job creation in 2006 is expected to follow the 2005 trend with strong growth in Western Canada, which is partially countered by a slower pace in Eastern Canada. Once again this year, Western Canada's energy and resource base will benefit from high commodity prices, while Eastern Canada's manufacturing base will suffer due to the high exchange rate. The forecast calls for employment growth of 1.6 per cent in 2006 and

1.5 per cent in 2007. The unemployment rate is expected to remain stable at 6.9 per cent in 2006 and 2007 as a result of employment growth staying in line with labour force growth. The Consumer Price Index (CPI) is expected to grow at an annual rate of 2.1 per cent in 2006, before declining to 2.0 per cent in 2007. This lies within the Bank of Canada's 1 per cent to 3 per cent target band for inflation. The impact of commodity prices remaining high is expected to put upward pressure on the CPI, but it will be countered by downward price pressures from global trade for consumer goods—especially from Asia.

There are several risks to the forecast. The key risk for economic growth in Canada is the performance of the US economy. Demand for Canadian exports is driven partially by US consumers. Softening of the US housing market could dampen construction and consumer spending in the US. If adverse geopolitical conditions persist for an extended period of time, this could further constrain consumer spending and business investment decisions. There is a perceived risk that renewed security issues could hamper the movement of individuals and goods at the international border between Canada and the US. This could slow economic growth in 2006 for Canada. The requirement for passports or special individual IDs for entry into the US could further slow down trade, especially for tourism in 2007. Of larger concern are the twin deficits in the US and the impact they will have on exchange rates. Given the self-correcting nature of international financial markets, a further appreciation of the Canadian dollar is a strong likelihood.

The forecast calls for moderate increases in interest rates as the economy remains close to its potential output. In the United States, the Federal Reserve will likely follow the same path, as the US also remains close to potential output. Indications of a slower US economy, however, could result in interest rate cuts by the Federal Reserve. Such a possibility could see Canadian short-term interest rates rising above US short-term interest rates. This will put upward pressure on the exchange rate,

but the primary driver of the exchange rate will be international financial markets and demand for Canadian goods (i.e., commodities). The combination of high commodity prices and the twin deficits in the US will exert greater upward pressure on the exchange rate, thereby creating the potential for a significant reduction in Canada's trade surplus and a slowdown in manufacturing output and employment. Heading into 2006, inflation could increase as high commodity prices begin to have an impact on consumers. It appears that in recent years, however, global trade for consumer goods has resulted in downward pressures on prices.

While high commodity prices may help to drive up the exchange rate, they also increase the value of exports per volume, even though the high exchange rate may deter the US from buying as much exports. To date, this valuation impact on exports has outweighed the volume impact on exports. If commodity prices ease significantly, then the value of exports could begin to fall.

The outlook for commodity prices is for markets to remain somewhat strong but down from their record levels in 2005. Some of the commodities prices, especially for oil and gas, will continue to follow their seesaw trends as those markets react to geopolitical risks and speculative buying in future markets. A softening housing market will put downward pressure on lumber prices. Newsprint prices are anticipated to increase marginally as producers adjust production to match declining demand. As in other forestry products, pulpwood producers are trying to increase prices to cover rising production costs (especially for energy and transportation). Increasing pulpwood supply from South America, Russia, and Asia could dampen any price increases. Overall, metal and mineral prices are expected to remain strong due to inventories remaining somewhat below average, continued solid demand, and limited production growth. Agricultural prices are anticipated to decline, with some support for increases as low global inven-

tories for some key commodities fall in line with consumption. As long as China's demand for commodities continues to swell, commodity prices could remain high for some time.

On the domestic side, there is a possibility that residential investment could dip even in a low interest rate environment. A good chunk of pent-up demand has been absorbed in the housing market over the last few years. The current economic forecast assumes residential investment will grow a mere 0.6 per cent in 2006 and a further 1.9 per cent in 2007. If the slowdown is more abrupt, then this will put the forecast at risk of a downward revision. To some degree, the consumer spending forecast hinges on the outlook for income and employment growth. The main risk on the consumer side is debt loads. At the end of 2005, debt loads were over 108 per cent of household income. If interest rates were to increase rapidly, many Canadians would be vulnerable to personal bankruptcy. The personal savings rate was negative 0.2 per cent in 2005—the lowest level since the 1930s. Some forecasters believe that because of equity built up in the residential stock, which many Canadians have used to finance their borrowings, there is still lots of room for consumer spending. Any bursting of the real estate bubble could spell the end of this huge run-up in debt loads. The importation of machinery and equipment, combined with the ever-increasing trend in mergers and acquisitions, could stifle employment growth. In terms of the business outlook, corporate financials are healthy heading into 2006. High commodity prices will benefit the resource sector, but a high exchange rate may offset this benefit in other sectors. The potential remains for strong business investment financed by continued profits, low interest rates, and a favourable exchange rate for those importing machinery and equipment.

The key national economic assumptions incorporated into the budget are displayed in the schedule below. The assumptions are based on data and information available as of March 30, 2006.

National Forecast Assumptions

	2005	2006	2007
Real Gross Domestic Product, 1997$ (% change)	2.9	3.0	2.9
Employment (% change)	1.4	1.6	1.5
Unemployment Rate (%)	6.8	6.9	6.9
Personal Income (% change)	4.9	4.0	4.4
Consumer Price Index (% change)	2.2	2.1	2.0
Retail Sales (% change)	6.3	5.3	5.0
Corporation Profits before Taxes (% change)	10.7	6.0	4.1
Exports of Goods and Services (% change)	5.2	5.5	5.6

Sources: Statistics Canada for 2005, Nova Scotia Department of Finance projections for 2006 and 2007

Provincial Economic Assumptions

Like the Canadian economy, the Nova Scotia economy was also impacted by rising commodity prices and an appreciating exchange rate. The Nova Scotia economy experienced an estimated 1.9 per cent growth rate in real GDP in 2005, after achieving a 1.4 per cent growth rate in 2004.

Growth was mostly driven by strong domestic demand, with imports growing at a faster pace than exports, along with higher prices putting downward pressure on real GDP growth.

Final domestic demand is estimated to have increased by 5.2 per cent. This growth was supported by steady consumer spending, along with solid growth from capital investments. Growth in consumer spending remained at 4.4 per cent in 2005, with retail sales increasing only 3.0 per cent. Spending on housing construction was 4.3 per cent higher, while housing starts were up slightly at 1.2 per cent. The moderate

increase in housing construction follows several years of robust spending on new homes and renovations.

This tempo of consumer spending was supported with strong income growth against slower employment growth. Personal income was up 4.4 per cent, while there was only a 0.2 per cent increase in employment. Growth in personal income reflects the healthy gain of 5.4 per cent for labour income, with gains of 2.1 per cent for both government transfer payments to persons and investment income.

Capital investments were a key driver in 2005, with business capital investments up 6.7 per cent along with a 4.5 per cent increase in public investments. Governments increased their spending on structures by 3.7 per cent, while taking advantage of the higher Canadian dollar with an increase of 6.4 per cent for machinery and equipment. Business investment for machinery and equipment was also strong, with an increase of 9.6 per cent. Private companies also invested more in capital structures, with an increase of 6.0 per cent for non-residential structures, especially in regards to new commercial building construction.

It appears that the appreciating exchange rate has had an impact on exports, with only a 2.1 per cent increase in total exports for 2005. International merchandise exports of goods to other countries are down 0.5 per cent. Fewer exports of goods like tires, lumber, wood pulp, scallops, lobsters, and crabs are the key factors behind the drop in international exports. The value of exports for Nova Scotia's number one commodity export, natural gas, was up 28.8 per cent. This huge increase is mostly a function of rising prices. Production of natural gas was down 2.5 per cent.

The value of total imports was up 4.0 per cent based mostly on an increase of 6.0 per cent for imports from other countries. Importing of more goods (machinery and equipment) than exporting puts a drag on the economy in the short run, but helps to improve productivity in the long run.

Corporation profits before taxes were up 5.0 per cent in 2005, in conjunction with increased exports from the province and high commodity prices. In the economic forecast, corporation profits before taxes relate to economic activity in the provincial economy and are not uniquely linked to the corporate income tax (CIT) estimates and forecast. CIT is based primarily on federally forecasted corporate taxable income and is affected by other variables, such as business take-up of provincial tax credit programs.

Nominal GDP expanded 4.6 per cent in 2005. Real growth was much less because of inflation, as the GDP deflator increased 2.7 per cent in 2005. The GDP deflator increased due to high commodity prices.

A slightly declining labour force against a slight increase in employment produced a fall in the unemployment rate. The number of people active in the labour market in 2005 dropped by 0.2 per cent, while employment grew 0.2 per cent. The end result was a 0.4 percentage point fall in the unemployment rate to 8.4 per cent. Employment growth was mostly concentrated in the wholesale and retail trade sector, plus the health care and social assistance sector. In geographical terms, most of the employment growth occurred in the northern regions, especially in Cape Breton.

Factors affecting Nova Scotia's economic outlook in 2006 and 2007 relate primarily to the performance of the US and Canadian economies, in concert with the rate of domestic activity. The outlook for 2006 and 2007 is for 2.2 per cent and 2.0 per cent growth in real GDP and for employment to increase by 0.9 per cent for both years.

Close to 50 per cent of Nova Scotia's GDP is directly attributed to the export of goods and services. To a large degree, the economic outlook for Nova Scotia depends on conditions prevailing in the economies of its principal trading partners,

the United States and the rest of Canada. In the economic outlook for the province in 2006, the economic expansion in the Canadian and US economies should help stimulate Nova Scotia economic growth in 2006. With the Canadian economy operating near its potential real rate of growth, there is no expectation of excessive growth in Nova Scotia in 2006. Continuation of somewhat lower but still strong commodity prices in historical terms, supported by healthy US real GDP growth, will help exports adjust to the high exchange rate. Overall, the economic outlook suggests positive real growth in a low interest and low inflation rate environment.

Total exports of goods and services are expected to increase 3.5 per cent in 2006, mainly as a result of high commodity prices and strong nominal US GDP growth. Corporate profits before taxes are expected to expand 4.4 per cent in 2006 as commodity prices and exports help elevate profits. Once again, the exchange rate is expected to slow the rate of growth compared to 2005.

The consumer is expected to continue supporting economic growth in 2006, as interest rates remain relatively stable with only moderate increases in 2006. Personal expenditures on consumer goods and services are expected to grow 4.1 per cent in 2006. Consumer spending continues to grow, but at a slightly lower pace in 2007, reflecting modest employment growth, low interest and inflation rates, and stable personal income growth. Retail sales are anticipated to follow their historical share of total spending by consumers, with growth of 3.7 per cent in 2006. Consumer price inflation in 2006 is expected to remain above the Bank of Canada's target band mid-point of 2 per cent, with an annual growth of 2.5 per cent, due mostly to energy prices and higher electric utility rates.

Offshore energy exploration and development investment spending continues to add to GDP and employment growth in the economy. In addition, capital investment over the next few

years reflects other major projects, including the Halifax Harbour Solutions Project. The Deep Panuke gas project remains on hold, but expenditures continue to flow from the development of Tier II of the Sable Offshore Energy Project (SOEP). The South Venture gas field was brought on stream in 2004, and a compression platform will be installed on the Thebaud processing platform in 2006. There is potential for at least two liquified natural gas (LNG) plants to be developed beyond 2006, but these have been excluded from the economic outlook because they have yet to receive all the necessary regulatory approvals and/or secure long-term supply contracts.

Offshore energy development and production affects the Nova Scotia economy in different ways. The impact of SOEP production on GDP growth occurs primarily through exports and corporation profits before tax. Natural gas output is anticipated to hold its own this year with the installation of a compression platform on the Thebaud processing platform.

In total, business capital investment in Nova Scotia is expected to increase 7.0 per cent in 2006. Investment intentions data from Statistics Canada supports strong growth in business capital investment in 2006, along with modest growth in public capital spending in 2006 of 4.4 per cent. Residential construction is expected to be lower than 2005 because of market absorption of pent-up demand in prior years. Non-residential construction is expected to post strong growth because of installation of the compression platform, along with other large institutional, commercial, and industrial projects like Halifax International Airport improvements, Dartmouth Crossing, and Michelin tire plant expansion(s). Machinery and equipment investment is expected to be positive again in 2006 but at a slower pace than 2005.

Employment growth is forecast to increase at 0.9 per cent for both 2006 and 2007, reflecting growth rates that fall in line after two years of strong employment growth and an economy

expected to be operating near its long-term growth trend. With employment anticipated to grow at a slightly higher pace than labour force growth in 2006 and 2007, the unemployment rate should decrease to an estimated 8.1 per cent in 2006 and then down to 8.0 per cent in 2007. Employment growth combined with increases in labour income per employee should lead to modest personal income growth of 3.3 per cent in 2006 and 3.2 per cent in 2007.

Nova Scotia's real GDP is forecast to grow 2.2 per cent in 2006, followed by 2.0 per cent in 2007. This forecast is toward the low end of the range of private-sector forecasters for both years, as shown in the table below:

Private-Sector Forecasts for Nova Scotia Real GDP Growth

	2006	2007
High (% increase)	2.8	2.8
Average (% increase)	2.4	2.5
Low (% increase)	2.0	2.3

The private-sector forecasters, surveyed and updated as of March 30, 2006, are Bank of Montreal, Bank of Nova Scotia, CIBC World Markets, Royal Bank of Canada, Toronto-Dominion Bank, Atlantic Provinces Economic Council, Nesbitt Burns, National Bank, and Conference Board of Canada.

Risks to the outlook identified with respect to the Canadian economy also apply to Nova Scotia, especially related to the economic performance of the US economy. A slower pace than expected would lower economic growth for Nova Scotia. Similarly, any perceived risks attached to household spending in Canada will also apply in Nova Scotia. A good chunk of pent-up demand has been absorbed in the housing market over the last few years, which could lead to further spending reductions than anticipated, especially with higher energy prices and interest rates than expected.

Finally, positive announcements regarding the two liquified natural gas (LNG) plants would be upside risks to the forecast.

The risks associated with commodity prices and the exchange are somewhat similar to those for Canada, although the former is a positive risk and the latter is a negative risk. There is a risk of higher inflation in Nova Scotia than Canada, based on early indications for 2006. How this plays out for 2006 is uncertain at this time, but it would have an impact on real incomes and reduce buying power of consumers. In the last two years, retail sales' share of total consumer spending has been falling, producing slower growth rates. With consumer spending also slowing in recent years, there is an added risk that Nova Scotia could see personal debt loads have an even bigger impact—especially since Nova Scotia incomes are roughly 90 per cent of the national level on a per capita basis to begin with. Over the last year, electric util y rates increased twice as a result of Utility and Review Board rulings. When combined with high oil prices, this could have a dampening impact on consumers, businesses, and governments.

The key provincial economic assumptions incorporated into the budget are displayed in the schedule below. The assumptions are based on data and information available as of March 30, 2006.

NOVA SCOTIA

Provincial Forecast Assumptions

	2005	2006	2007
Real Gross Domestic Product, 1997$ (% change)	1.9	2.2	2.0
Nominal Gross Domestic Product (% change)	4.6	4.2	3.4
Employment (% change)	0.2*	0.9	0.9
Unemployment Rate (%)	8.4*	8.1	8.0
Personal Income (% change)	4.4	3.3	3.2
Consumer Price Index (% change)	2.8*	2.5	2.0
Retail Sales (% change)	3.0	3.7	4.1
Corporation Profits before Taxes (% change)	5.0	4.4	3.8
Exports of Goods and Services (% change)	2.1	3.5	4.7

Sources: Statistics Canada, actual (*), Nova Scotia Department of Finance Projections.

NOVA SCOTIA

Revenue Outlook — April 26, 2006

In 2006–2007, total ordinary revenues are estimated to be $6,587.3 million, an increase of 5.1 per cent over the 2005–2006 forecast. Own-source revenues are expected to increase by $249.2 million over the 2005–2006 forecast to $4,227.9 million in 2006–2007. Federal transfers will increase by $98.3 million from 2005–2006 forecast levels.

Revenue Sources ($ thousands)	Actual 2004–2005	Forecast 2005–2006	Estimate 2006–2007	Change For. to Est.
Provincial Sources				
Personal Income Taxes (1)	1,462,250	1,574,960	1,652,495	77,535
Corporate Income Taxes	329,075	361,990	378,795	16,805
Sales Tax (HST)	1,031,066	1,051,047	1,092,095	41,048
Tobacco Tax	178,285	167,975	166,382	(1,593)
Gasoline and Diesel Tax	249,246	247,650	244,902	(2,748)
Interest Revenues	70,513	77,438	77,812	374
Registry of Motor Vehicles	86,688	85,958	89,268	3,310
Royalties - Petroleum	28,202	128,000	288,000	160,000
Other Provincial Sources	310,654	283,688	238,178	(45,510)
Total Provincial	**3,745,979**	**3,978,706**	**4,227,927**	**249,221**
Federal Sources				
Equalization (2)	1,321,774	1,343,527	1,385,539	42,012
CHT	484,528	581,007	611,556	30,549
CST	244,867	254,964	267,919	12,955
Other Federal Sources (3)	98,702	81,620	94,406	12,786
Total Federal Sources	**2,149,871**	**2,261,118**	**2,359,420**	**98,302**
Prior Years' Adjustments				
Provincial Sources	(63,278)	22,807	0	(22,807)
Federal Sources	25,093	5,027	0	(5,027)
Total Ordinary Revenue	**5,857,665**	**6,267,658**	**6,587,347**	**319,689**

(1) Adjusted to reflect the Federal Budget 2006 provisions for exemption of capital gains for fishing assets and donations of ecologically sensitive lands.
(2)/(3) Adjusted to reflect Federal Budget 2006 recalculation of Equalization and the Equalization Offshore Offset.

NOVA SCOTIA

Provincial Own Source

Income Taxes

Personal Income Tax (PIT)

The 2006–2007 estimate for personal income tax on a fiscal year basis rises 4.9 per cent over the 2005–2006 fiscal year forecast. Nova Scotia's share of national taxable income is expected to grow about 5.4 per cent over 2005–2006, and net provincial personal income tax is expected to rise 6.8 per cent over 2005–2006 on a tax year basis and 4.9 per cent after fiscalization. The estimate is based on national level taxable income supplied by the federal government as of February 3, 2006.

Nova Scotia uses federally determined taxable income as its base and has maintained the non-refundable tax credits in effect for the 2005 tax year, but effective January 1, 2007 these credits will increase by 3.46 per cent.

Corporate Income Tax (CIT)

Corporate income tax, on a fiscal year basis, is expected to rise by 4.6 per cent or $16.8 million over 2005–2006. CIT is based primarily on federally forecasted corporate taxable income, as of February 3rd 2006, and is affected by other variables, such as business take-up of provincial tax credit programs.

While provincial-level corporate profits are expected to rise by 4.4 per cent, estimated provincial corporate taxable income is expected to increase by 6.0 per cent, reflecting strong national growth in corporate taxable income of 7.7 per cent. Expected credit take-up in 2006–2007 is moderately lower than in 2005–2006 primarily due to declining use of the manufacturing investment tax credit.

Harmonized Sales Tax (HST)

Gross HST is estimated to total $1,192.6 million in 2006–2007, up $45.1 million or 3.9 per cent from the 2005–2006 forecast. HST rebates for public-sector bodies, new housing, printed books, volunteer fire departments, persons with disabilities, and segregated funds are projected to total $100.5 million—an increase of 4.2 per cent. Net HST is projected to total $1,092.1 million in 2006–2007.

Growth in the consumer expenditure component remains the most influential factor of the increased revenues, with modest increases in the housing and public-sector components also contributing to revenue growth. Public-sector rebates are primarily responsible for the increased rebate total, although printed book and segregated fund rebates continue to increase each year.

Tobacco Tax

Tobacco tax revenues are projected to total $166.4 million in 2006–2007, down $1.6 million or negative 1.0 per cent from the 2005–2006 forecast. Promotion of a healthy lifestyle by all levels of government and an increased application of no-smoking laws in public spaces have contributed to a decline in consumption. As a result of cessation policies combined with an increase in prices over the past year, tobacco tax revenues are declining and are projected to continue to decline over the coming years.

Motive Fuel Taxes

Motive fuel tax revenues are projected to total $244.9 million in 2006–2007, down $2.7 million or negative 1.1 per cent from the 2005–2006 forecast. High petroleum prices are expected to prevail during the next fiscal year, having a negative impact on gasoline consumption, which accounts for 75 per cent of the revenue from motive fuel taxes. This impact will be slightly offset by increases in consumer consumption as a result of a

projected rise in labour income. Diesel oil consumption has increased over the past fiscal year, and prices are expected to moderate in 2006–2007. However, diesel oil consumption is not a large enough segment to offset the decrease in taxes from gasoline consumption.

Offshore Petroleum Royalties

Offshore petroleum royalties are budgeted to be $288 million in 2006–2007. This is an increase of $160 million over the 2005–2006 forecasted royalties, primarily due to working interest holders in the Sable Offshore Energy Project achieving predetermined return thresholds that result in increasing royalty rates. Royalties are sensitive to fluctuations in key variables such as natural gas prices and production levels.

Federal Transfers

Equalization

Equalization revenues are estimated to increase by $42.0 million over forecast 2005–2006 to $1.4 billion. The Equalization estimate reflects the announcement made by the federal government in federal Budget 2006 to update economic and fiscal data used to calculate the provincial equalization allocation. The province's equalization estimate is based on the assumption that federal budget legislation will be passed by Parliament and receive royal assent later this year.

The Canada Health Transfer (CHT) and The Canada Social Transfer (CST)

The Canada Health and Social Transfer (CHST) was restructured in the 2003 federal budget. Effective April 1, 2004, two new transfers were created—the Canada Health Transfer (CHT) and the Canada Social Transfer (CST).

In 2006–2007, the CHT cash entitlement for Nova Scotia is estimated to be $611.6 million, $30.5 million higher than the 2005–2006 CHT forecast. The total provincial entitlement is made up of the provincial allocation of a fixed national entitlement. The 2006–2007 national CHT amount that is available in cash and tax points is forecast to be $32.8 billion. The higher CHT base in 2006–2007 reflects the outcome of the First Ministers' Meeting on Health Care held in September 2004. The cash estimate reflects the federal calculation on the levels of population and personal and corporate income tax.

Nova Scotia's 2006–2007 cash entitlement for CST is $13.0 million higher than the 2005–2006 forecast, to stand at $267.9 million. The provincial entitlement consists of the provincial allocation of a fixed national entitlement, which stood at $16.3 billion in cash and tax points. The cash estimate reflects the federal calculation on the levels of population, basic federal tax (BFT), and corporate taxable income.

Other Federal Sources

Other federal sources reflects, in part, the agreement reached between Nova Scotia and the Government of Canada on the Canada–Nova Scotia Offshore Petroleum Resources Accord to make Nova Scotia the primary beneficiary of its offshore resources. The amount recognized as revenue under generally accepted accounting principles (GAAP) from the $830-million payment is $57.1 million in 2005–2006 and $57.4 million in 2006–2007 according to the calculation set out in the federal *Budget Implementation Act, 2005*. The province's estimate of the equalization offset is based on the assumption that federal budget legislation will be passed by Parliament and receive royal assent later this year.

Other federal sources also includes the federal Wait Times Reduction Fund. This funding is going to be drawn down according to the notional allocation included in the Wait

NOVA SCOTIA

Times Agreement and provincial spending commitments. Nova Scotia has drawn down $18.2 million in 2005–2006 and will draw down $34.7 million in 2006–2007.

Tax Measures

Personal Income Tax

Credits and Brackets

- Starting in 2007, the basic personal exemption will increase $250 annually for four years and, in subsequent years, will be indexed at prescribed rates starting at 2 per cent in 2011.
- Starting in 2007, non-refundable tax credits will have the same equivalent percentage increase as the basic personal exemption.
- Starting in 2011, personal tax brackets, basic personal exemption and non-refundable credits will be indexed annually at prescribed rates starting at 2 per cent.

Healthy Living Tax Credit

- A tax credit in support of families with children enrolled in registered physical activities was introduced for the 2005 tax year. This credit on up to $150 in sport fees has been increased to $500 effective January 1, 2006.

Graduate Tax Credit

- Students graduating from an eligible post-secondary program starting in 2006 and who reside and work in the province will be entitled to a graduate tax credit of $1000 to be applied against provincial personal income taxes owed in the three-tax-year period commencing in the year of graduation.

Biodiesel Incentive

- Effective July 1, 2006, Nova Scotia-produced biodiesel that meets the American Society for Testing and Materials fuel-quality specification will be exempt from Motive Fuel Tax. The current rate of tax on biodiesel is $0.154/litre, similar to the rate applied to diesel oil. The exemption will be applied to the biodiesel portion of the blend only, while the diesel oil portion will continue to be taxed at current rates.

Provincial Child Care Benefit Tax Credit

- On May 2, 2006 the federal government announced a $1200 Universal Child Care Benefit for children under six years old. Effective July 1, 2006, the province will be introducing a non-refundable tax credit for parents/guardians of children under 6. The tax credit rate will be set at the 8.79 per cent rate applied to the full value of the new $1200 federal Universal Child Care Benefit ($600 in 2006). Further, the province will ensure that social programs subject to income eligibility will remain unaffected.

Corporate Income Tax

Small Business Rate Reduction Threshold

- Effective April 1, 2006, the threshold for the lower small business tax rate of 5 per cent has been increased from $350,000 to $400,000.

Large Corporations Taxes

- The 2005 budget provided for a Large Corporations Tax rate reduction of .025 to .275 per cent effective July 2005 and for a continued annual rate reduction of .025 per cent for the following three years, with a forecasted rate of .2 per cent effective July 1, 2008. The 2006 budget provides for the phase-down

schedule to be extended for another four years at an accelerated rate of .05 percentage points per year until the Large Corporations Tax on capital is completely eliminated effective July 1, 2012.

Film Tax Credit

- Effective July 1, 2006, film productions with more than 50 per cent of production outside of Halifax Regional Municipality will be eligible for the 5 per cent regional bonus on the entire production.

Energy Efficiency Tax Credit

- Effective July 1, 2006, a new tax credit will be introduced to help promote energy conservation and enhance the competitive performance of Nova Scotia companies. It will be a non-refundable tax credit equal to 25 per cent of eligible capital investments in renewable energy sources or energy efficiency investments made by a corporation in any given year after that date and limited to 50 per cent of Large Corporate Tax payable in any year.

Dividend Tax Credit

- The federal government has announced their intention to increase the dividend tax credit from 13 per cent to 19 per cent for public corporations. Nova Scotia will implement changes to its dividend tax credit to ensure that provincial income tax is unaffected by the federal change.

Tax Rate on Used Motor Vehicles

- The province will be introducing legislation to adjust the rate on used motor vehicles from 15 per cent to 14 per cent to correspond with the 1 percentage point decrease in the federal GST rate announced for July 1, 2006.

Sensitivity

Revenue estimates are based on a number of economic, financial, tax assessment, and statistical values and assumptions. As these variables change throughout the year and as more information becomes available, they may have an impact, either negatively or positively, on the revenue forecasts.

It is important to note that these variables can move quite independently from each other and may have offsetting effects. The following table lists the major revenue sources of the province and indicates some of the key variables that affect the forecasts of those sources throughout the year.

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Revenue Source	Key Variables
Personal Income Taxes	• national level of personal taxable income
	• Nova Scotia share of national levels of taxable income
	• provincial taxable income yield
Corporate Income Taxes	• national level of corporate taxable income level
	• Nova Scotia share of national taxable income
	• tax credit uptake
	• national and provincial corporate profit levels
HST	• personal consumer expenditure levels
	• provincial gross domestic product
	• spending by exempt industries
	• rebate levels
	• housing investment
Tobacco, Gasoline and Diesel Taxes	• personal consumer expenditure levels
	• labour income
	• tobacco and fuel consumption patterns
	• tobacco and fuel prices
Equalization	• equalization is fixed for 2006–2007
	• no adjustment to the estimate
CHT/CST	• changes in personal and corporate income taxes
	• changes in population
	• changes in tax point values

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2006–2007 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2006–2007 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its Consolidated Fund. As a result, revenue for certain government service organizations that are consolidated for financial statement purposes, are not included in the province's revenue estimates.

The Department of Finance and other departments or agencies of the province have prepared their specific revenue estimates for 2006–2007 using a combination of current internal and external models and other information available. Every effort has been taken to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue forecast to be received through federal transfer payment programs pursuant to the *Federal-Provincial Fiscal Arrangements Act* incorporates official information released by the federal government as of April 11, 2006. Prior Years' Adjustments (PYAs) are normally made to federal transfers and to income tax revenues. All PYAs known to date have been included in the forecast for 2005–2006.

Recoveries of expenditures under various federal-provincial agreements or from other departments or entities, user fees, and income on sinking fund investments have been estimated and are netted against departmental expenditures for purposes of approval of appropriations for 2006–2007.

Any and all impacts or implications of the government's actions or plans with regard to public sector revenues and expenses have been fully considered and appropriately reflected in the specific economic and revenue estimates.

Federal Trust Disclosure

In preparation for their 2006–2007 budget the federal government informed the province of their intention to set up five third-party trusts for the benefit of provinces and territories under the authority of Bill C–48. The five trusts are the Post-Secondary Infrastructure Trust, the Public Transit Capital Trust, the Affordable Housing Trust, the Off-Reserve Aboriginal Trust, and the Northern Housing Trust.

While the maximum amount for each trust is set, the provincial allocation methods determined and annual notional allocations for either two or three years provided, the exact amount of the federal transfer remains unknown, as it is subject to the level of the 2005–2006 federal surplus. There are also purpose restrictions placed on each fund that guide what can and cannot be funded by each trust. Federal transfers to the trusts will not occur until the fall of 2006.

Given the uncertainty of the amounts available in each trust and the purpose restrictions placed on each trust, no revenue amount for any of these five trusts is included in the 2006–2007 estimates of the province. The province will defer the recognition of revenue until the transfers are complete, spending plans approved, and eligible expenses incurred. The complete recognition of revenue will occur within the time period allowed within each trust.

Offshore Forfeiture Revenue

The risk of a deposit forfeiture is inherent in the offshore exploration industry. While a forfeiture is not unusual given the unpredictable nature of this industry, any revenue projection based on past trends would be inappropriate. The province's accounting recognition policy is to record forfeiture revenue when a notice of forfeiture is given. As of today's date, no notice has been provided for 2006–2007.

To be consistent with our revenue recognition policy and to reflect the uncertainty of this revenue, no offshore forfeiture revenue is included in the 2006–2007 estimates. If, subsequent to the Budget, forfeiture notice is provided, the amount will be reflected in future quarterly forecast updates and the Public Accounts for 2006–2007.

Government Business Enterprises

Supplementary to the 2006-2007 Budget

NOVA SCOTIA

Government Business Enterprises—Net Income

Nova Scotia Gaming Corporation Net Income

Nova Scotia Gaming Corporation's (NSGC) net income is budgeted to be $144.2 million in 2006–2007. This is a decrease of 8.4 per cent compared to the 2005–2006 forecasted net income. This decline is attributable to four factors:

1. A reduction in the video lottery business line largely attributable to the annualized impact of the Gaming Strategy measures, which were introduced in the 2005–2006 fiscal year. The full-year impact reduces net income by an additional $21.7 million compared to the 2005–2006 forecast.

2. A $5.1-million increase in net income from Ticket Lottery due to reduced amortization expense on a number of fully depreciated capital assets that support this business line.

3. An increase of $4.6 million in net income from the Casino business line as a result of implementation of the Capital Improvement Plan, which has enhanced the overall amenities and product offerings at both casinos.

4. An increase of $0.6 million in NSGC's responsible gaming expenditures in support of its commitment to effective information and education programs.

NOVA SCOTIA

Nova Scotia Liquor Corporation Net Income

Net Income from the retailing and wholesaling of beverage alcohol are expected to be $184.5 million for 2006–2007 (a 2.6 per cent increase) on net sales of $494.4 million. This increase will be driven primarily by an increasingly disciplined approach to category management, more targeted customer promotions and marketing, increased product advice to customers, the successful implementation of new business technology, a new wholesale customer service strategy, and a continued investment in the expansion of NSLC stores and agency stores.

Economic Schedules

Supplementary to the Budget Address 2006–2007

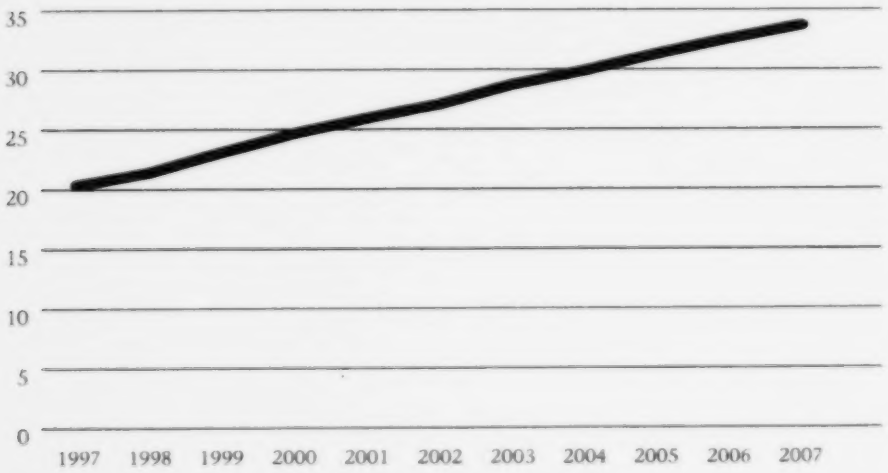
NOVA SCOTIA

Schedule 1
Nominal Gross Domestic Product at Market Prices ($ millions)

Year	Nova Scotia (1)	Growth Rate %	Canada (2)	Growth Rate %
1997	20,368	4.4	882,733	5.5
1998	21,401	5.1	914,973	3.7
1999	23,059	7.7	982,441	7.4
2000	24,658	6.9	1,076,577	9.6
2001	25,909	5.1	1,108,048	2.9
2002	27,079	4.5	1,154,204	4.2
2003	28,715	6.0	1,216,191	5.4
2004	29,879	4.1	1,290,185	6.1
2005	31,255	4.6 p	1,368,726	6.1
2006	32,554	4.2 p	1,435,410	4.9 p
2007	33,670	3.4 p	1,503,928	4.8 p

1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
2 Source: Statistics Canada, National Income and Expenditure Accounts, Cat. No. 13-001-PPB
p Preliminary Projections; Source: Nova Scotia Department of Finance

Nominal Gross Domestic Product at Market Prices
($billions)



(Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB)

NOVA SCOTIA

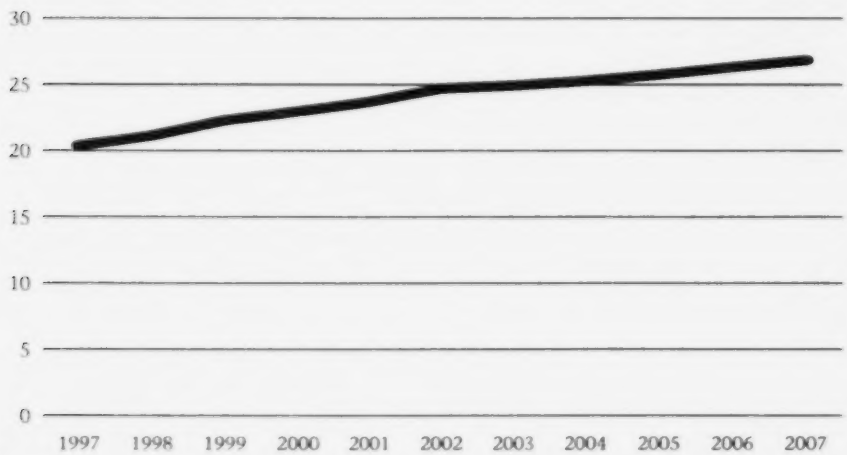
Schedule 2
Real Gross Domestic Product at Market Prices (chained 1997 $ millions)

Year	Nova Scotia (1)	Growth Rate %	Canada (2)	Growth Rate %
1997	20,368	4.3	882,733	4.2
1998	21,127	3.7	918,910	4.1
1999	22,285	5.5	969,750	5.5
2000	22,970	3.1	1,020,488	5.2
2001	23,700	3.2	1,038,702	1.8
2002	24,702	4.2	1,070,789	3.1
2003	24,925	0.9	1,092,388	2.0
2004	25,271	1.4	1,124,428	2.9
2005	25,747	1.9 p	1,157,446	2.9
2006	26,318	2.2 p	1,191,910	3.0 p
2007	26,843	2.0 p	1,226,724	2.9 p

1 Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB
2 Source: Statistics Canada, National Income and Expenditure Accounts, Cat. No. 13-001-PPB
p Preliminary Projections; Source: Nova Scotia Department of Finance

Note: The Chained 1997$ millions is the Fisher Volume Index formula (1997 = 100) used to project gross domestic product in constant dollars.

Nova Scotia Real Gross Domestic Product at Market Prices
(chained 1997 $ billions)



(Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB)

NOVA SCOTIA

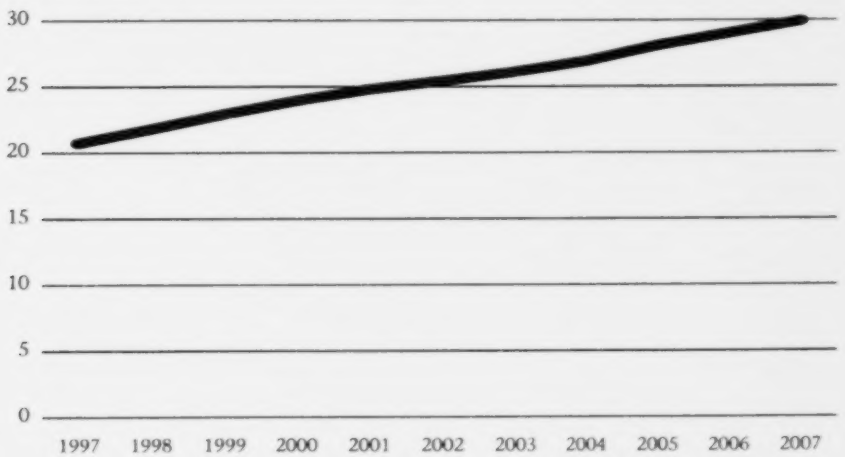
Schedule 3
Personal Income Per Capita
(dollars)

Year	Nova Scotia (1)	% Change	Canada (1)	% Change
1997	20,722	3.9	23,924	3.1
1998	21,786	5.1	24,814	3.7
1999	22,922	5.2	25,755	3.8
2000	23,933	4.4	27,384	6.3
2001	24,793	3.6	28,254	3.2
2002	25,418	2.5	28,664	1.5
2003	26,113	2.7	29,369	2.5
2004	26,905	3.0	30,343	3.3
2005	28,092	4.4 p	31,540	3.9 p
2006	29,008	3.3 p	32,539	3.2 p
2007	29,932	3.2 p	33,685	3.5 p

1 Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-213-XPB (Statistics Canada Annual Demographic Statistics) and Nova Scotia Department of Finance

p Preliminary Projections; Source: Nova Scotia Department of Finance

Personal Income Per Capita in Nova Scotia
($ thousands)



(Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-213-XIB)

NOVA SCOTIA

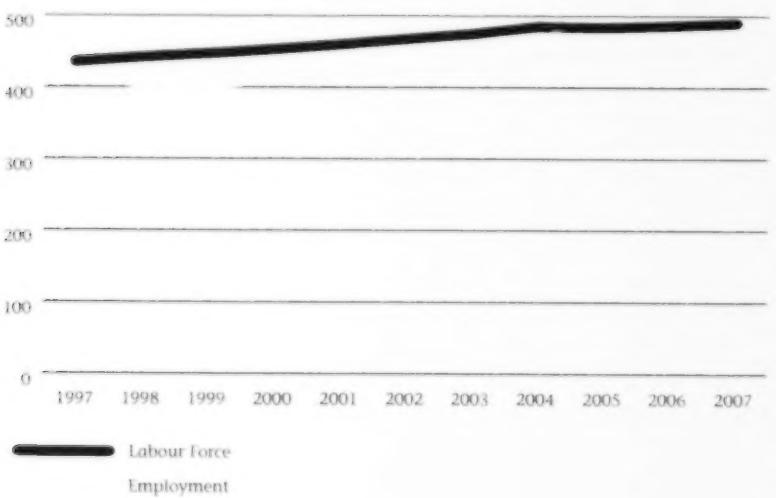
Schedule 4
Nova Scotia Labour Market
(thousands of persons)

Year	Labour Force (1)	% Change	Employment (1)	% Change
1997	435.1	1.2	382.0	1.4
1998	441.8	1.5	395.3	3.5
1999	446.8	1.1	404.0	2.2
2000	452.8	1.3	411.4	1.8
2001	460.0	1.6	415.2	0.9
2002	467.7	1.7	422.9	1.9
2003	474.6	1.5	431.2	2.0
2004	485.0	2.2	442.2	2.6
2005	483.9	(0.2)	443.1	0.2
2006	486.3	0.5 p	447.1	0.9 p
2007	490.2	0.8 p	451.1	0.9 p

1 Source: Statistics Canada, 2005 Labour Force Historical Review, 71F0004XCB, February 2006

p Preliminary Projections; Source: Nova Scotia Department of Finance

Nova Scotia Labour Market
(thousands of persons)



(Source: Statistics Canada, 2005 Labour Force Historical Review, 71F0004XCB, February 2006)

NOVA SCOTIA

Schedule 5
Unemployment
(thousands of persons)

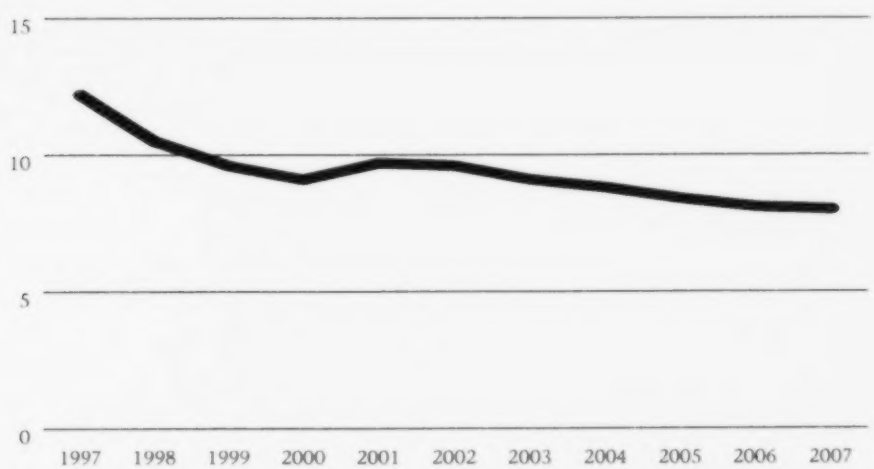
Year	Unemployed	Nova Scotia (1) Unemployment Rate (%)	Unemployed	Canada (1) Unemployment Rate (%)
1997	53.1	12.2	1,373.1	9.1
1998	46.6	10.5	1,270.1	8.3
1999	42.9	9.6	1,181.6	7.6
2000	41.4	9.1	1,082.8	6.8
2001	44.8	9.7	1,163.6	7.2
2002	44.8	9.6	1,268.9	7.7
2003	43.4	9.1	1,286.2	7.6
2004	42.8	8.8	1,235.3	7.2
2005	40.8	8.4	1,172.8	6.8
2006	39.2	8.1 p	1,209.0	6.9 p
2007	39.1	8.0 p	1,244.8	6.9 p

1 Source: Statistics Canada 2005, Labour Force Historical Review, 71F0004XCB, February 2006

p Preliminary Projections: Source: Nova Scotia Department of Finance

Note: The unemployment statistics shown in this table are annual averages of the monthly indices.

Unemployment Rate in Nova Scotia
(per cent)



Budgetary Information

Supplementary to the 2006-2007 Budget

NOVA SCOTIA

BUDGET OVERVIEW

SUPPLEMENTARY TO THE 2006-2007 BUDGET

Budget Overview

The Province of Nova Scotia is tabling its fifth consecutive balanced budget in fiscal 2006–2007, estimating a surplus of $71.9 million, which puts the Province in a position to continue to invest in programs and infrastructure.

The 2006–2007 Estimate reflects an increase of $489.8 million in revenues and a $491.0 million increase in Net Program Expenses over the 2005–2006 budget.

Provincial Source revenues have increased 10.2 per cent, while Federal Source revenues have increased 4.4 per cent. The Provincial Source revenues, including the net income from the Government Business Enterprises, now make up 66.0 per cent of the Province's total revenues.

There is $57.4 million in revenue attributed to the Offshore Agreement signed between the Province and the Government of Canada on February 14, 2005. The agreement resulted in a lump sum payment of $830.0 million, which was received on July 4, 2005. Provincial legislation has been amended to ensure that these funds are applied to the Province's debt and accounted for according to GAAP over the eight-year life of the agreement.

Net Expenses for fiscal 2006–2007 are budgeted at $6.9 billion. The increase in spending over the 2005–2006 budget will provide additional investment in youth, families and communities; health promotion and protection; and, economic development and infrastructure. Also, the Government will be providing relief of the provincial portion of the HST on home energy costs through Service Nova Scotia and Municipal Relations.

Authority for the annual cost to acquire provincially owned assets is reflected in Tangible Capital Assets – Net Capital Purchase Requirements, which totals $335.0 million in fiscal 2006–2007, an increase of $55.0 million over the 2005-2006 budget. The majority of the additional funding is an investment

in the highway system, which has been increased by $34.0 million, and for land acquisition in the Department of Natural Resources, which has risen by $16.3 million.

In addition, capital funding has been provided to the following governmental units: $40.0 million for the District Health Authorities and IWK Health Centre; $2.0 million for Nova Scotia Business Inc.; $1.6 million for Nova Scotia Innovation Corporation; $3.7 million for Trade Centre Limited; and, $0.5 million for the Waterfront Development Corporation.

The Province's Net Direct Debt to GDP continues its downward trend in fiscal 2006–2007, falling to 38.2 percent compared to 48.7 percent in fiscal 1999–2000. Foreign currency exposure also continues to drop, and as of March 31, 2006 was 13.1 percent.

Budget Summary

Supplementary to the 2006-2007 Budget

BUDGET SUMMARY - STATEMENT OF OPERATIONS

Schedule 6

($ thousands)

ESTIMATE 2004-2005 (as restated)	ACTUAL 2004-2005	ESTIMATE 2005-2006	FORECAST 2005-2006		ESTIMATE 2006-2007
				Consolidated Fund	
5,574,172	**5,857,665**	**6,097,580**	**6,267,658**	**Ordinary Revenue (1)**	**6,587,347**
				Net Expenses	
5,077,630	5,192,710	5,496,275	5,588,376	Net Program Expenses	5,987,235
(9,400)	6,337	24,379	38,268	Pension Valuation Adjustment	33,213
871,821	890,328	897,468	872,057	Debt Servicing Costs	884,567
5,940,051	**6,089,375**	**6,418,122**	**6,498,701**		**6,905,015**
(365,879)	**(231,710)**	**(320,542)**	**(231,043)**		**(317,668)**
				Consolidation and Accounting Adjustments for Governmental Units	
36,000	2,309,970	37,461	37,370	Consolidated Fund Consolidation Adjustments	46,402
1,500	(1,390,144)	---	(4,100)	Health and Hospital Boards Operations	4,100
---	(798,832)	---	---	School Boards Operations	---
---	5,305	(958)	(3,543)	Special Purpose Funds	(1,533)
(1,605)	(78,803)	688	5,739	Other Organizations	5,556
35,895	**47,496**	**37,191**	**35,466**		**54,525**
				Net Income from Government Business Enterprises	
152,400	170,031	160,900	157,350	Nova Scotia Gaming Corporation (1)	144,200
181,715	170,034	177,070	179,900	Nova Scotia Liquor Corporation (1)	184,500
8,000	9,442	8,664	9,329	Other Enterprises	6,364
342,115	**349,507**	**346,634**	**346,579**		**335,064**
12,131	**165,293**	**63,283**	**151,002**	**Provincial Surplus**	**71,921**

(1) - See Note on Page E11

BUDGET SUMMARY - STATEMENT OF OPERATIONS

($ thousands)

Schedule 6

(continued)

ESTIMATE 2004-2005 (as restated)	ACTUAL 2004-2005	ESTIMATE 2005-2006	FORECAST 2005-2006		ESTIMATE 2006-2007
				Components of the Debt Reduction Plan	
4,000	---	4,000	4,000	Debt Retirement - Contingency	4,000
6,000	6,000	---	---	Debt Retirement - Fund	---
---	---	57,100	57,100	Offshore Offset Agreement	57,421
---	---	---	85,000	Strategic Infrastructure Investment	---
2,131	159,293	2,183	4,902	Other	10,500
12,131	**165,293**	**63,283**	**151,002**		**71,921**

Note: The following table provides information as to the various components of the Debt Reduction Plan.

FINANCIAL REPORTING AND ACCOUNTING POLICIES

The 2006-2007 Budget has been prepared following accounting policies consistent with those used to prepare the 2004-2005 Public Accounts. The Public Accounts were prepared in accordance with Canadian generally accepted accounting principles for the public sector, which for purposes of the Province's financial statements are represented by accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA or accounting standards or pronouncements.

Comparative Figures

Comparative figures for estimates are based on the accounting policies in effect at the time the Estimates were prepared. Net program estimates are not adjusted for subsequent accounting changes once the appropriations are finalized. The following is a summary of accounting changes made in the past two years which impact the comparability of figures.

Figures shown for 2004-2005 - Estimates not restated, Actual reflects the following:

- measuring the assets for the long-term disability plan at a smoothed market related value, as opposed to a fair market value basis, which increased the 2004-2005 Actual Provincial Surplus by $4.4 million; the market related value measurement approach is consistent with how the Province measures the pension plan assets, recognizing asset market value gains and losses on a straight-line basis over a five-year period; and,
- changing the pension plan discount rate assumption as a result of an annual assumption review and update process, which increased the 2004-2005 Actual Provincial Surplus by $22.7 million.

Figures shown for 2004-2005 - Estimates restated, Actual restated for the following:

- the presentation of the debt retirement plan as a reduction of the Provincial Surplus has been adjusted; the elements of the debt reduction plan are now shown as an allocation of the Provincial Surplus for the purposes of debt retirement and therefore, the surplus is clearly not available for allocation to any program area; and,
- the Casino Win Tax, which is collected for the Province by the Nova Scotia Gaming Corporation and was included under Net Income from Government Business Enterprises in the 2004-2005 Estimates has been moved to the Consolidated Fund, Ordinary Revenue, Department of Finance.

CONSOLIDATED FUND

Schedule 7

ORDINARY REVENUE - SUMMARY

By Revenue Source

($ thousands)

ESTIMATE 2004-2005 (as restated)	ACTUAL 2004-2005	ESTIMATE 2005-2006	FORECAST 2005-2006		ESTIMATE 2006-2007
				Provincial Sources	
263,753	329,075	350,177	361,990	Corporate Income Tax	378,795
1,015,336	1,031,066	1,068,935	1,051,047	Harmonized Sales Tax	1,092,095
1,465,695	1,462,250	1,553,568	1,574,960	Individual Income Tax	1,652,495
64,898	70,513	72,413	77,438	Interest Revenues	77,812
255,872	249,246	256,895	247,650	Motive Fuel Taxes	244,902
---	61,000	---	43,208	Offshore Licenses Forfeitures	---
80,381	86,688	87,716	85,958	Registry of Motor Vehicles	89,268
20,000	28,202	30,000	128,000	Royalties - Petroleum	288,000
180,217	178,285	177,567	167,975	Tobacco Tax	166,382
245,275	249,654	239,333	240,480	Other Provincial Sources	238,178
---	(63,278)	---	22,807	Prior Years' Adjustments - Provincial Sources	---
3,591,427	**3,682,701**	**3,836,604**	**4,001,513**		**4,227,927**
				Federal Sources	
703,998	---	---	---	Canada Health and Social Transfer	---
---	484,528	578,410	581,007	Canada Health Transfer	611,556
---	244,867	257,408	254,964	Canada Social Transfer	267,919
1,202,851	1,321,774	1,343,527	1,343,527	Equalization Payments	1,385,539
44,109	44,035	---	---	Health Reform Fund	---
29,457	34,000	4,000	4,000	Offshore Offset	---
---	---	57,100	57,100	Offshore Oil and Gas Payments	57,421
---	18,348	18,201	18,201	Wait Times Reduction Fund	34,666
2,330	2,319	2,330	2,319	Other Federal Sources	2,319
---	25,093	---	5,027	Prior Years' Adjustments - Federal Sources	---
1,982,745	**2,174,964**	**2,260,976**	**2,266,145**		**2,359,420**
5,574,172	**5,857,665**	**6,097,580**	**6,267,658**		**6,587,347**

Note: In order to provide a better comparison with the Consolidated Financial Statements, the net revenues from the Nova Scotia Gaming Corporation and the Nova Scotia Liquor Corporation were reclassified from Ordinary Revenue to Net Income from Government Business Enterprises in the 2004-2005 Estimate. The Casino Win Tax, which is collected for the Province by the Nova Scotia Gaming Corporation and was included under Net Income from Government Business Enterprises in the 2004-2005 Estimate, has been moved to the Consolidated Fund, Ordinary Revenue, Department of Finance.

CONSOLIDATED FUND
NET PROGRAM EXPENSES - SUMMARY

Schedule 8

($ thousands)

ESTIMATE 2004-2005	ACTUAL 2004-2005	ESTIMATE 2005-2006	FORECAST 2005-2006		ESTIMATE 2006-2007
40,796	50,141	44,113	48,405	Agriculture	38,840
694,145	704,440	716,174	711,514	Community Services	748,123
1,002,848	1,012,010	1,074,377	1,073,978	Education	1,138,222
206,531	227,117	206,711	223,819	Assistance to Universities	227,872
7,350	6,835	9,619	20,825	Energy	19,712
26,152	25,711	27,947	27,797	Environment and Labour	30,064
14,134	12,312	16,858	15,930	Finance	18,517
2,341,690	2,369,408	2,559,740	2,573,351	Health	2,764,479
---	---	---	---	Health Promotion and Protection	36,299
99,626	97,802	107,847	104,527	Justice	116,467
59,322	58,755	63,098	62,881	Natural Resources	65,837
154,146	163,195	183,455	213,052	Public Service	196,249
92,352	101,682	96,384	109,377	Service Nova Scotia and Municipal Relations	136,261
41,055	51,052	42,383	44,830	Tourism, Culture and Heritage	44,401
241,009	250,800	263,954	267,440	Transportation and Public Works	291,955
56,474	61,450	83,615	89,184	Restructuring Costs	113,937
---	---	---	1,466	Loss on the Disposal of Assets	---
5,077,630	**5,192,710**	**5,496,275**	**5,588,376**		**5,987,235**

CONSOLIDATED FUND
DEBT SERVICING COSTS - SUMMARY

($ thousands)

Schedule 9

ESTIMATE 2004-2005	ACTUAL 2004-2005	ESTIMATE 2005-2006	FORECAST 2005-2006		ESTIMATE 2006-2007
				Debt Servicing Costs	
863,287	869,642	859,306	823,862	Interest on Long-Term Debt	805,845
44,641	46,908	44,120	43,094	General Interest	42,322
99,184	117,013	113,639	128,147	Interest on Pension, Retirement and Other Obligations	124,183
1,007,112	**1,033,563**	**1,017,065**	**995,103**	**Gross Debt Servicing Costs**	**972,350**
(135,291)	(143,235)	(119,597)	(123,046)	**Less: Sinking Fund Earnings**	(87,783)
871,821	**890,328**	**897,468**	**872,057**	**Net Debt Servicing Costs**	**884,567**

Note:

1) For further details on the underlying assumptions that support the Net Debt Servicing Costs projections, see Section F, Overview of Treasury Management, Schedule 15, Page F18 and Schedule 17, Page F19.

CONSOLIDATED FUND
STATUTORY CAPITAL ITEMS - SUMMARY

($ thousands)

Schedule 10

ACTUAL 2004-2005	ESTIMATE 2005-2006	FORECAST 2005-2006		ESTIMATE 2006-2007
			CAPITAL ADVANCES AND INVESTMENTS The following is given for information as to the proposed program.	
			Additional Advances and Investments (A)	
24,809	25,000	14,000	Fisheries Development Fund	20,000
24,006	15,962	8,503	Industrial Development Act	27,838
20,781	30,000	30,000	Nova Scotia Farm Loan Board	30,000
3,494	20,000	16,000	Nova Scotia Fund	20,000
12,139	41,411	34,961	Nova Scotia Housing Development Corporation	55,604
1,800	---	---	Miscellaneous	---
87,029	**132,373**	**103,464**		**153,442**
			Repayments (A)	
14,312	14,000	15,000	Fisheries Development Fund	14,000
3,277	2,887	1,659	Industrial Development Act	2,516
140	140	140	Municipal Loan and Building Fund Act	140
20,821	18,000	19,500	Nova Scotia Farm Loan Board	18,000
13,399	12,000	7,500	Nova Scotia Fund	7,500
14,760	20,195	15,696	Nova Scotia Housing Development Corporation	28,095
4,485	473	554	Miscellaneous	587
71,194	**67,695**	**60,049**		**70,838**
15,835	**64,678**	**43,415**	**Net Capital Advances and Investments**	**82,604**

(A) - Capital Advances and Investments for which no Vote is required under the Appropriations Act. The Spending Authority is contained in the respective Statutes. Borrowing provided for under the Appropriations Act.

FINANCIAL STATISTICS

SUPPLEMENTARY TO THE 2006-2007 BUDGET

HISTORICAL ANALYSIS OF REVENUES BY SOURCE

Schedule 11

	2002-2003 (as restated)	*2003-2004* (as restated)	*2004-2005*	***FORECAST*** *2005-2006*	***ESTIMATE*** *2006-2007*
REVENUE BY SOURCE *($ thousands)*					
Provincial Sources (1)					
Corporate Income Tax	204,950	232,710	329,075	361,990	378,795
Harmonized Sales Tax	905,120	975,204	1,031,066	1,051,047	1,092,095
Individual Income Tax	1,353,675	1,350,071	1,462,250	1,574,960	1,652,495
Interest Revenues	60,675	69,264	70,513	77,438	77,812
Motive Fuel Taxes	246,283	249,900	249,246	247,650	244,902
Offshore Licenses Forfeitures	---	1,244	61,000	43,208	---
Registry of Motor Vehicles	75,933	77,546	86,688	85,958	89,268
Royalties - Petroleum	11,115	24,083	28,202	128,000	288,000
Tobacco Tax	145,425	161,715	178,285	167,975	166,382
Other Provincial Sources	195,865	237,989	249,654	240,480	238,178
Prior Years' Adjustments - Provincial Sources	(23,833)	145,504	(63,278)	22,807	---
Nova Scotia Gaming Corporation	172,982	158,491	170,031	157,350	144,200
Nova Scotia Liquor Corporation	157,866	166,752	170,034	179,900	184,500
Other Government Business Enterprises	7,551	8,099	9,442	9,329	6,364
Federal Sources					
Canada Health and Social Transfer	605,117	686,853	---	---	---
Canada Health Transfer	---	---	484,528	581,007	611,556
Canada Social Transfer	---	---	244,867	254,964	267,919
Equalization Payments	1,125,088	1,114,487	1,321,774	1,343,527	1,385,539
Health Reform Fund	---	29,611	44,035	---	---
Offshore Offset	---	---	34,000	4,000	---
Offshore Oil and Gas Payments	---	---	---	57,100	57,421
Wait Times Reduction Fund	---	---	18,348	18,201	34,666
Other Federal Sources	2,299	2,330	2,319	2,319	2,319
Prior Years' Adjustments - Federal Sources	36,924	(2,623)	25,093	5,027	---
Total Revenues	**5,283,035**	**5,689,230**	**6,207,172**	**6,614,237**	**6,922,411**

Note: In order to provide a better comparison with the Consolidated Financial Statements, the net revenues from the Nova Scotia Gaming Corporation and the Nova Scotia Liquor Corporation were reclassified from Ordinary Revenue to Net Income from Government Business Enterprises in fiscal 2004-2005.

HISTORICAL ANALYSIS OF REVENUES BY SOURCE

Schedule 11
(continued)

	2002-2003 (as restated)	2003-2004 (as restated)	2004-2005	FORECAST 2005-2006	ESTIMATE 2006-2007
REVENUE BY SOURCE *(as a percentage of Total Revenues)*					
Provincial Sources					
Corporate Income Tax	3.9%	4.1%	5.3%	5.5%	5.5%
Harmonized Sales Tax	17.1%	17.1%	16.6%	15.9%	15.8%
Individual Income Tax	25.6%	23.7%	23.6%	23.8%	23.9%
Interest Revenues	1.1%	1.2%	1.1%	1.2%	1.1%
Motive Fuel Taxes	4.7%	4.4%	4.0%	3.7%	3.5%
Offshore Licenses Forfeitures	---	---	1.0%	0.7%	---
Registry of Motor Vehicles	1.4%	1.4%	1.4%	1.3%	1.3%
Royalties - Petroleum	0.2%	0.5%	0.5%	1.9%	4.2%
Tobacco Tax	2.8%	2.8%	2.9%	2.5%	2.4%
Other Provincial Sources	3.7%	4.2%	4.0%	3.6%	3.4%
Prior Years' Adjustments - Provincial Sources	-0.4%	2.6%	-1.0%	0.3%	---
Nova Scotia Gaming Corporation	3.3%	2.8%	2.7%	2.4%	2.1%
Nova Scotia Liquor Corporation	3.0%	2.9%	2.7%	2.7%	2.7%
Other Government Business Enterprises	0.1%	0.1%	0.2%	0.1%	0.1%
Total - Provincial Sources	**66.5%**	**67.8%**	**65.0%**	**65.6%**	**66.0%**
Federal Sources					
Canada Health and Social Transfer	11.5%	12.1%	---	---	---
Canada Health Transfer	---	---	7.8%	8.8%	8.8%
Canada Social Transfer	---	---	4.0%	3.9%	3.9%
Equalization Payments	21.3%	19.6%	21.3%	20.3%	20.0%
Health Reform Fund	---	0.5%	0.7%	---	---
Offshore Offset	---	---	0.5%	0.1%	---
Offshore Oil and Gas Payments	---	---	---	0.9%	0.8%
Wait Times Reduction Fund	---	---	0.3%	0.3%	0.5%
Other Federal Sources	---	---	---	---	---
Prior Years' Adjustments - Federal Sources	0.7%	---	0.4%	0.1%	---
Total - Federal Sources	**33.5%**	**32.2%**	**35.0%**	**34.4%**	**34.0%**
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

REVENUES BY SOURCE

Chart 1

2005-2006 FORECAST

2006-2007 ESTIMATE

HISTORICAL ANALYSIS OF TOTAL NET EXPENSES BY FUNCTION

Schedule 12

	2002-2003 (as restated)	*2003-2004* (as restated)	*2004-2005*	*FORECAST 2005-2006*	*ESTIMATE 2006-2007*
FUNCTION					
($ thousands)					
General Government	140,587	132,161	154,165	201,681	240,655
Public Protection	169,737	187,215	189,934	190,871	207,333
Transportation	210,708	191,100	202,018	226,201	254,465
Resource Development	152,546	161,946	193,614	215,466	212,983
Health	2,033,437	2,227,340	2,446,130	2,660,237	2,867,056
Social Services	630,629	612,775	666,151	681,259	725,085
Education	1,141,838	1,190,881	1,237,663	1,302,602	1,375,093
Culture and Recreation	40,538	48,117	49,745	59,294	52,774
Municipal Affairs	50,444	45,630	53,290	50,765	51,791
Total Net Program Expenses	**4,570,464**	**4,797,165**	**5,192,710**	**5,588,376**	**5,987,235**
Debt Servicing Costs	1,045,664	1,039,708	1,033,563	995,103	972,350
Total Net Expenses	**5,616,128**	**5,836,873**	**6,226,273**	**6,583,479**	**6,959,585**
FUNCTION					
(as a percentage of Total Net Expenses)					
General Government	2.5%	2.3%	2.5%	3.1%	3.5%
Public Protection	3.0%	3.2%	3.0%	2.9%	3.0%
Transportation	3.8%	3.3%	3.2%	3.4%	3.6%
Resource Development	2.7%	2.8%	3.1%	3.3%	3.0%
Health	36.2%	38.1%	39.3%	40.4%	41.2%
Social Services	11.3%	10.5%	10.7%	10.3%	10.4%
Education	20.3%	20.4%	19.9%	19.8%	19.8%
Culture and Recreation	0.7%	0.8%	0.8%	0.9%	0.8%
Municipal Affairs	0.9%	0.8%	0.9%	0.8%	0.7%
Total Net Program Expenses	**81.4%**	**82.2%**	**83.4%**	**84.9%**	**86.0%**
Debt Servicing Costs	18.6%	17.8%	16.6%	15.1%	14.0%
Total Net Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

TOTAL NET EXPENSES BY FUNCTION

Chart 2

2005-2006 FORECAST

2006-2007 ESTIMATE

SUMMARY OF REVENUES AND EXPENSES BY SOURCE AND FUNCTION

Schedule 13

($ thousands)

ESTIMATE 2005-2006	FORECAST 2005-2006	Increase (Decrease) from ESTIMATE 2005-2006		ESTIMATE 2006-2007
			Consolidated Fund	
			Revenues	
			Ordinary Revenues by Source	
			Provincial Sources	
350,177	361,990	11,813	Corporate Income Tax	378,795
1,068,935	1,051,047	(17,888)	Harmonized Sales Tax	1,092,095
1,553,568	1,574,960	21,392	Individual Income Tax	1,652,495
72,413	77,438	5,025	Interest Revenues	77,812
256,895	247,650	(9,245)	Motive Fuel Taxes	244,902
---	43,208	43,208	Offshore Licenses Forfeitures	---
87,716	85,958	(1,758)	Registry of Motor Vehicles	89,268
30,000	128,000	98,000	Royalties - Petroleum	288,000
177,567	167,975	(9,592)	Tobacco Tax	166,382
239,333	240,480	1,147	Other Provincial Sources	238,178
---	22,807	22,807	Prior Years' Adjustments - Provincial Sources	---
			Federal Sources	
578,410	581,007	2,597	Canada Health Transfer	611,556
257,408	254,964	(2,444)	Canada Social Transfer	267,919
1,343,527	1,343,527	---	Equalization Payments	1,385,539
---	---	---	Health Reform Fund	---
4,000	4,000	---	Offshore Offset	---
57,100	57,100	---	Offshore Oil and Gas Payments	57,421
18,201	18,201	---	Wait Times Reduction Fund	34,666
2,330	2,319	(11)	Other Federal Sources	2,319
---	5,027	5,027	Prior Years' Adjustments - Federal Sources	---
6,097,580	**6,267,658**	**170,078**		**6,587,347**

SUMMARY OF REVENUES AND EXPENSES BY SOURCE AND FUNCTION

Schedule 13 (continued)

($ thousands)

ESTIMATE 2005-2006	FORECAST 2005-2006	Increase (Decrease) from ESTIMATE 2005-2006		ESTIMATE 2006-2007
			Net Expenses by Function	
211,478	201,681	(9,797)	General Government	240,655
189,643	190,871	1,228	Public Protection	207,333
223,894	226,201	2,307	Transportation	254,465
180,052	215,466	35,414	Resource Development	212,983
2,635,134	2,660,237	25,103	Health	2,867,056
673,782	681,259	7,477	Social Services	725,085
1,284,424	1,302,602	18,178	Education	1,375,093
48,007	59,294	11,287	Culture and Recreation	52,774
49,861	50,765	904	Municipal Affairs	51,791
5,496,275	**5,588,376**	**92,101**	**Total - Net Program Expenses**	**5,987,235**
24,379	**38,268**	**13,889**	**Pension Valuation Adjustment**	**33,213**
897,468	**872,057**	**(25,411)**	**Net Debt Servicing Costs**	**884,567**
6,418,122	**6,498,701**	**80,579**	**Total - Net Expenses**	**6,905,015**
(320,542)	**(231,043)**	**(89,499)**		**(317,668)**
37,191	**35,466**	**(1,725)**	**Consolidation and Accounting Adjustments for Governmental Units**	**54,525**
346,634	**346,579**	**(55)**	**Net Income from Government Business Enterprises**	**335,064**
63,283	**151,002**	**87,719**	**Provincial Surplus**	**71,921**

			Components of the Debt Reduction Plan	
4,000	4,000	---	Debt Retirement - Contingency	4,000
---	---	---	Debt Retirement - Fund	---
57,100	57,100	---	Offshore Offset Agreement	57,421
---	85,000	85,000	Strategic Infrastructure Investment	---
2,183	4,902	2,719	Other	10,500
63,283	**151,002**	**87,719**		**71,921**

Note: See Page E10 for information on the Financial Reporting and Accounting Policies used in this budget.

Fiscal Plan
2006–2007 to 2009–2010

Supplementary to the 2006-2007 Budget

FISCAL PLAN 2006-2007 to 2009-2010

Schedule 14

($ millions)

	ESTIMATE 2005-2006	FORECAST 2005-2006	ESTIMATE 2006-2007	ESTIMATE 2007-2008	ESTIMATE 2008-2009	ESTIMATE 2009-2010
Consolidated Fund						
Revenues	6,097.6	6,267.6	6,587.3	7,069.7	7,368.3	7,545.2
Net Expenses	6,418.1	6,498.7	6,905.0	7,247.0	7,532.1	7,766.8
	(320.5)	(231.1)	(317.7)	(177.3)	(163.8)	(221.6)
Consolidation Adjustments	37.2	35.5	54.5	32.1	28.8	25.7
Net Income Government Business Enterprises	346.6	346.6	335.1	334.2	342.0	346.9
Provincial Surplus	63.3	151.0	71.9	189.0	207.0	151.0

Note: See Page E10 for information on the Financial Reporting and Accounting Policies for the accounting policies that have been used in the preparation of this Fiscal Plan.

NOVA SCOTIA

Overview of Treasury Management

Supplementary to the 2006-2007 Budget

NOVA SCOTIA

Overview of Treasury Management

The Department of Finance, Liability Management and Treasury Services Division, serves as the treasury function for most of the government entity, including managing daily banking functions (bank transfers, short-term investing and borrowing, and banking relationships) and short-term investments of special funds (sinking funds, Public Debt Management Fund (PDMF), and miscellaneous trust funds).

The Department of Finance is responsible for managing Nova Scotia's gross financial market debt portfolio, which stood at $12.08 billion as of March 31, 2006. Against this gross financial market debt are financial assets held in mandatory and discretionary sinking funds plus holdings of Nova Scotia Municipal Finance Corporation debt. These assets total $2.63 billion, resulting in a net debt of $9.45 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the PDMF, and where efficient to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The fiscal context for debt management is provided in the Budget Address Fiscal Plan. The 2006–2007 budget shows that the government intends to have balanced budgets in the following four years. The *Provincial Finance Act* requires that the government table balanced budgets; and in the event of a deficit the government must take certain remedial actions.

In 2005–2006, the province saw a significant decline in debt outstanding in financial markets. On July 4, 2005, the Province of Nova Scotia received $830 million in an upfront payment to ensure that the province will be the primary beneficiary of its

offshore resource revenues. The full amount was applied to reduce debt outstanding in financial markets. Under the Offshore Offset Agreement, Nova Scotia will receive 100 per cent protection from equalization "clawbacks" for eight years (2004–05 to 2011–12), as long as the province receives equalization entitlements. The agreement is worth an estimated $1.1 billion to Nova Scotia. In addition, this agreement provides for a further eight-year extension as long as Nova Scotia still qualifies for equalization and per-capita net debt does not become lower than that of at least four other provinces.

The budget and Public Accounts, collectively referred to as financial statements or "books" of the province, are presented on a full accrual basis. In contrast, Treasury Management is the cash side of government operations, and in this context, the "borrowing requirements" are a cash flow measure, representing actual cash transactions related to the current, past, and future budgetary transactions, as well as the cash flow implications of non-budgetary transactions, such as capital advances, some contributions to pension plans, and net acquisition of tangible capital assets. Under the full accrual basis of accounting, revenues and expenditures are recorded when they are incurred, regardless of when the cash flows occur. The Offshore Offset Agreement up-front payment of $830 million has been recorded as deferred revenue and will be shown as revenue in the fiscal year in which it is "earned." In 2006–2007, the province will record $57.4 million in revenues under the Offshore Accord Agreement.

In recent years, even with budgetary surpluses being recorded, the net direct debt of the province has increased to $12.321 billion at March 31, 2006. Additions to the net debt of the province have continued under generally accepted accounting principles (GAAP) due to the treatment of the acquisition of tangible capital assets. In 2004–2005, government set aside an additional $60 million for debt reduction to provide flexibility in capital infrastructure investments in future years. Under that Strategic Infrastructure Investment program, an allocation of $60 million to the 2004–2005 annual surplus provided for an

increase in capital spending in 2005–2006 and 2006–2007 without negatively affecting the Debt Reduction Plan. In 2005-2006, another $85 million was set aside for debt reduction to permit additional capital infrastructure investment of $55 million in 2006-2007 and $30 million in 2007-2008.

The province's ratio of net direct debt to nominal gross domestic product at market prices continues to decline, and it is forecast to stand at 39.4 per cent at March 31, 2006, down from 41.2 per cent a year earlier.

The province continues to communicate its improving fiscal position both to investors and to bond-rating agencies. In 2003 and 2004 the province's credit rating was upgraded by all three major bond-rating agencies, and in 2005 all three rating agencies put the province on positive outlook.

Canadian Provincial Ratings, April 2006

	DBRS	S&P	Moody's
Alberta	AAA	AAA	Aaa
British Columbia	AA	AA+	Aa1
Saskatchewan	A(high)	AA-	Aa2
Manitoba	A(high)	AA-	Aa2
Ontario	AA	AA	Aa2
Quebec	A	A+	A1
New Brunswick	A(high)	AA-	Aa3
Nova Scotia	**A(low)**	**A**	**A2**
Prince Edward Island	A(low)	A	A2
Newfoundland and Labrador	BBB(high)	A-	A3

The Province of Nova Scotia provides disclosure of treasury management activities in this document, and further information can be found in the province's Securities and Exchange Commission (SEC) filings. The province files a Form 18-K with the SEC, which provides information to investors and the general public on the economic, fiscal, and debt situation of the province. The most recent submission can be viewed on the Department of Finance website. In the upcoming year, the Department of Finance will continue to develop further financial information on its website.

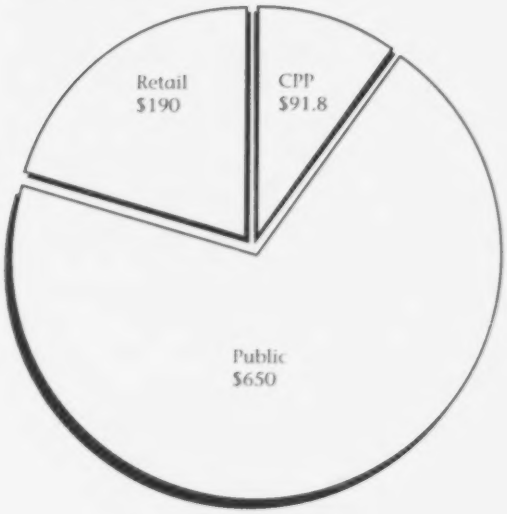
Structure of the Debt Portfolio

The structure of the debt portfolio has been evolving over the past number of years with the intent of protecting the province's fiscal situation from unanticipated increases in interest rates or deterioration in the Canadian dollar and to manage the province's refinancing requirements for the long term. The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio: (1) primary issuance market activities, (2) the debt maturity schedule, (3) foreign currency exposure, (4) interest rate mix, and (5) derivative counterparty exposure.

1. Primary Issuance Market

The Province of Nova Scotia has enacted balanced budget legislation and has, including this 2006–2007 budget, posted five consecutive balanced budgets. This success does not, however, mean that the province does not need to borrow funds on an ongoing basis to refinance existing debt and for non-budgetary purposes. The management of these debt maturities is enhanced by the use of discretionary sinking fund reserves held by the province. These discretionary funds represent an integral component of the liability management strategy of the province.

Chart 3: Consolidated Fund Debt Portfolio—Issuance Profile, 2005–2006
(In $ millions)



In fiscal 2005–2006, the province borrowed $931.8 million ($741.8 million excluding retail structured notes) compared to budget borrowing requirements of $340 million. This increase in borrowing was due in part to the department's funding of various Crown corporation activities, in particular the funding of $112 million for the Nova Scotia Municipal Finance Corporation. A further increase of $255 million in borrowings was used to refinance retail structured debt issues called during the fiscal year. The province maintains a limited portfolio of these callable retail structured issues as part of a broader program to provide access to diverse funding sources. The province met its borrowing requirements in 2005–2006 in the domestic financial market through the following debt issues: three 30-year domestic public issues for $650 million; seven domestic retail structured notes totaling $190 million issued under the domestic Medium Term Note program and the rollover of a

$91.75-million Canada Pension Plan issue for a 30-year term. The latter issue is part of the Canada Pension Plan Investment Board's assets that are invested in the provincial bond market and are transacted at market rates of interest.

The province has established a diversity of borrowing sources, both domestically and in foreign markets, as this is a key factor in achieving lower financing costs and maintaining a broad demand for Nova Scotia debt issues. The province maintains documentation with the Securities and Exchange Commission (SEC) in the United States to provide access to the US and global bond markets.

The province intends to maintain its Euro Medium Term Note (EMTN) program in 2006. This will provide more timely and efficient access to European institutional and retail markets. This latter program also provides the province with the opportunity to access broader global markets. In prior years, the province had filed documentation with regulatory authorities in Japan, as the Province of Nova Scotia has debt outstanding in that market. With the maturity of the last Nova Scotia yen issue in Japan in August 2004, this documentation was allowed to lapse, and the province has no plans to refile. The province may still borrow in Japanese yen and other Asian markets through its existing EMTN documentation. In fiscal 2005–2006, the province did not access international capital markets.

Although the province does maintain documentation to borrow in foreign markets, the domestic Canadian debt market continues to be the primary source of funding for the province's borrowing programs. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium Term Note (MTN) program is maintained to add flexibility to the domestic borrowing programs.

Certain Crown agencies of the Province of Nova Scotia invest monies with the provincial Consolidated Fund on a short-term basis. This activity is an efficient use of funds that provides both security and market returns to Crown agencies while providing the Consolidated Fund with a market cost of funds. At March 31, 2006, the Nova Scotia Government Fund, Workers' Compensation Board of Nova Scotia, Nova Scotia Business Inc., Nova Scotia Municipal Finance Corporation, Resource Recovery Board, Nova Scotia Research and Innovation Trust, and Nova Scotia Crop and Livestock Insurance Commission invested a total of $49.0 million with the Consolidated Fund.

At March 31, 2006, the Consolidated Fund also held $66.8 million in monies on deposit from the Halifax Regional Municipality to be used for the purposes of the Halifax Harbour Solutions Project. The municipality, as required to meet the project's cash requirements, will draw down these monies for that project. The final draw of these monies is expected to occur in August 2007.

Projected term debt borrowing for fiscal 2006–2007 is about $908 million. Schedule 18 shows the projected borrowing program for 2006–2007 to 2009–2010. The borrowing program starts with the provincial budgetary surplus that reduces requirements. As the provincial budget is produced on a fully GAAP-compliant basis, there are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the Consolidated Fund. In 2006–2007, the major adjustments are (1) and (2). Each year there are requirements for capital advances to Crown agencies and the excess of capital expenditure over capital amortization, referred to as the net acquisition of tangible capital assets. The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits.

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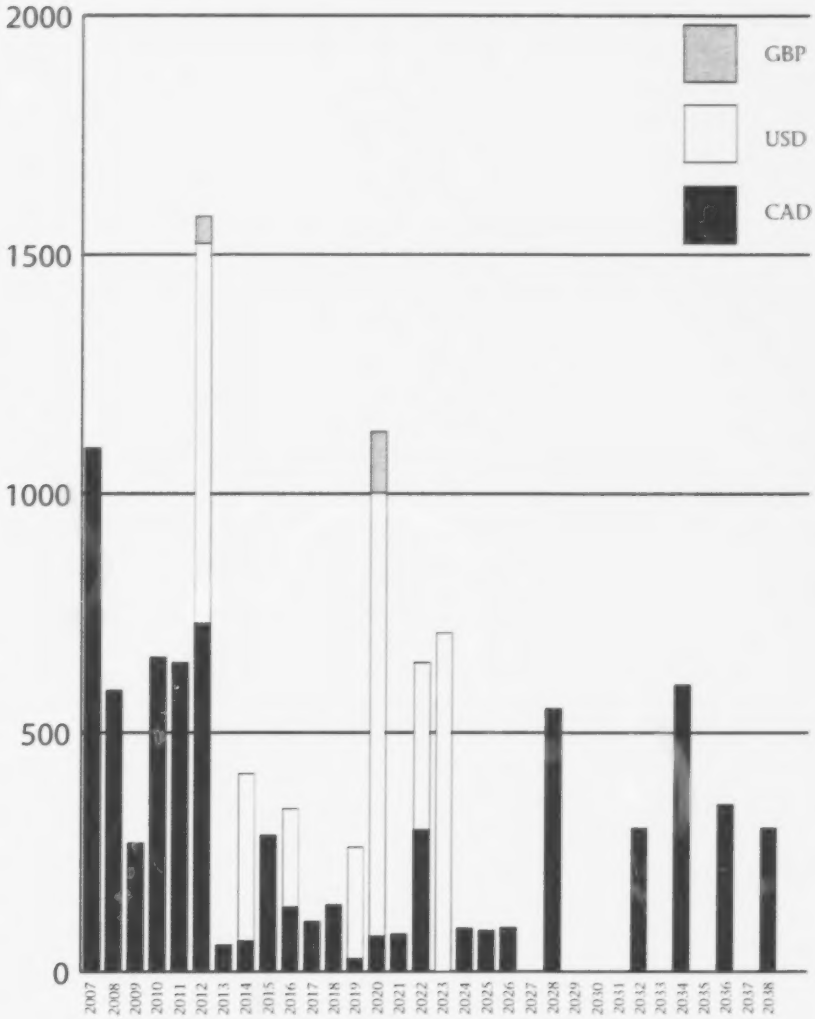
2. Maturity Schedule

The Province of Nova Scotia's gross financial market debt consists of Canadian fixed-coupon marketable bonds, foreign currency denominated fixed-coupon marketable bonds, Canada Pension Plan non-marketable bonds, floating interest rate notes, retail structured notes, capital leases, a cash obligation to the Teachers' Pension Fund, and short-term promissory notes. Chart 4, titled Consolidated Fund Debt Portfolio-Maturity Schedule, displays the maturity profile of the province's gross financial market debt portfolio. The province's currency exposures are shown prior to the effect of derivative transactions. For example, the province has two sterling issues (GBP) outstanding in fiscal years 2012 and 2020 that are swapped to CAD and USD respectively. Retail structures that are callable debt are shown in the year of final maturity, as the call dates are somewhat uncertain. The province has no public debt issues outstanding with either call or put options.

Chart 4: Consolidated Debt Portfolio Maturity Schedule
(In $ millions)



The Province of Nova Scotia has accumulated and actively manages a large offsetting asset position in discretionary sinking funds—primarily the Sinking Fund General and the Public Debt Management Fund (PDMF). Those funds are available to smooth the maturity schedule by reducing the necessity to borrow in financial markets in any given year. This approach is considered conservative debt management.

Debt maturities over the next two years are $1.1 billion in fiscal 2006–2007 and $610 million in fiscal 2007–2008 (see Schedule 13). The debt maturities in 2006–2007 are shown in the borrowing requirement to be offset by drawing down $375 million in discretionary sinking funds. The province also pre-borrowed approximately $200 million in 2005–2006 to take advantage of historically low long-term interest rates. These funds are held in the discretionary sinking funds. By provincial legislation, the sinking funds and Public Debt Management Fund can be used only to retire debt issues.

There are sizable maturities in US dollars in the fiscal years 2014 to 2023. Each of these debt issues, by bond covenant, is required to be fully funded with sinking funds at maturity. The province is required to contribute to the sinking fund of each such issue annually until such time as the full principal value of the bonds is accumulated. As such, the refinancing of these issues is spread over the entire life of each bond, and it is not necessary to refinance these issues in the year of maturity.

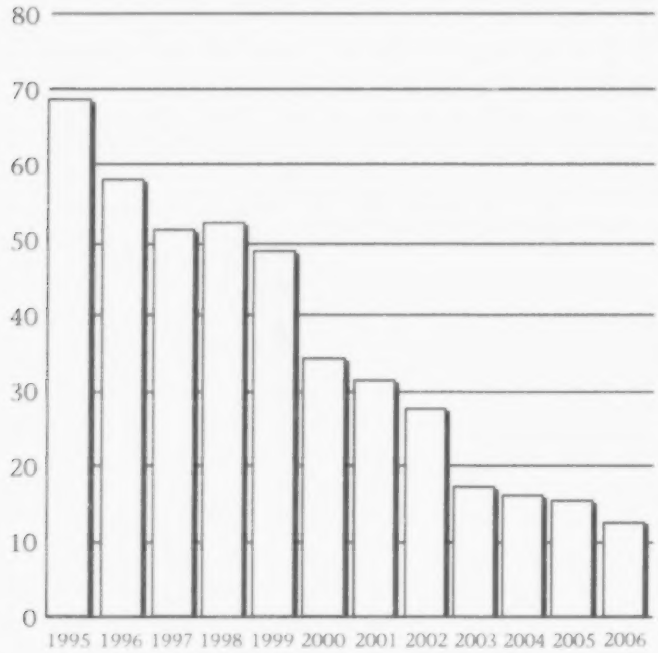
3. Foreign Currency Exposure

The Canadian dollar denominated debt represented the largest share of the gross financial market debt portfolio at 86.9 per cent based on the face value in Canadian dollars (foreign currency exposure of 13.1 per cent), up from 83.8 per cent a year earlier. The reduction in foreign currency exposure during fiscal 2006–2007 was primarily due to cross-currency swaps executed by the Department of Finance and a mild strengthening in the Canadian dollar versus the US dollar. As this figure is calculated as a percentage of the gross financial market debt portfolio, the size of the portfolio is an aspect of the ratio. The draw-down of the Sinking Funds and Public Debt Management Fund by $657 million in 2005–2006 and the receipt of the $830 million under the Offshore Accord Agreement combined to reduce the level of gross financial market debt by $1.1 billion—all other things equal, increasing the foreign currency exposure by one percentage point.

The Province of Nova Scotia's remaining foreign currency debt is entirely in US dollars (USD) or hedged to USD. As noted above, the province established US dollar sinking funds for all USD debt issued in the late 1980s and early 1990s. As such, there are significant US dollar assets to offset gross foreign currency exposure—and those assets are primarily Nova Scotia US pay bonds. Thus, on a net basis, at March 31, 2006, the province's foreign currency exposure was 8.9 per cent. The Nova Scotia *Provincial Finance Act* requires that, until the province's gross foreign currency exposure is less than 20 per cent, no financial transactions or series of financial transactions be completed that increase the foreign currency exposure.

In fiscal 2005–2006, the value of the Canadian dollar improved against the US dollar, on a year-over-year basis, to $1.1671 CAD/USD from $1.2096 a year earlier, to the net benefit of the province.

Chart 5: Foreign Currency Exposure
1995 to 2006
(per cent)



4. Interest Rate Mix

The debt portfolio's exposure to floating interest rates rose slightly over the past year to 15.5 per cent at March 31, 2006. The province includes fixed interest rate term debt maturing in less than one year in its measure of floating interest rate debt to more accurately reflect exposure to resetting interest rates. The province is able to exercise tight control of this variable in the portfolio by maintaining access to capital markets and through its extensive derivative capabilities.

The current level of floating interest rate debt is near the low end of the province's floating rate exposure policy. That policy sets the dollar volatility of debt-servicing costs, and the implied floating interest rate exposure is in the range of 10 to 30 per cent of total debt outstanding. With 84.5 per cent of the total principal in fixed interest rate form, the province has some protection from unexpected increases in interest rates, yet derives a benefit from the lower expected cost of short-term debt.

5. Derivative Exposure

Derivative is a broadly used term for any financial contract where future cash flows (and thus its value) are derived from a specific benchmark—for example, interest rate, foreign currency rate, financial asset, index, forward, future, or any other agreed-upon reference point. Derivatives allow the Province of Nova Scotia to identify, isolate, and manage separately the market risks in financial instruments for the purpose of hedging, risk transfer, arbitraging interest rate differences, and adjusting portfolio risks. These transactions can be more effective and at a lower cost than would be possible in the cash market.

At March 31, 2006, the province's use of derivatives was for three purposes: (1) the hedging of foreign currency debt issues to Canadian or US dollars, (2) interest rate swaps to hedge certain aspects of retail structured notes, and (3) asset-liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance's on-lending program to Crown corporations.

The province is currently party to approximately $3.9 billion notional face value of derivative transactions. The Department of Finance credit policy states that it executes derivative transactions only with well-rated counterparties. According to this policy, all counterparties are rated equal to or better than the province. The Liability Management and Treasury Services

Division actively manages credit risks of the derivative portfolio. The Debt Management Committee reviews all counterparty exposure and limits. When a counterparty has a split rating, the province uses the most conservative among the ratings.

Structure of Debt Management and Sinking Funds

Until March 31, 2002, the province provided sinking fund installments for all its term debt issues including Canada Pension Plan (CPP) and Medium Term Notes (MTN) issues. These funds were held against each specific bond for the bond's principal repayment at maturity. The province ceased sinking fund contributions to these debt maturities in 2002–2003 and reassigned the existing sinking funds held to the Sinking Fund General. The latter is available to retire debt at the discretion of the Minister of Finance.

As of March 31, 2003, funds held for public issues without a sinking fund bond covenant were also moved to the Sinking Fund General. The province continues to make sinking fund installments for those debentures that contain sinking fund bond covenants. On those issues, annual sinking fund installments generally range from 1 to 3 per cent of the original issue, but may vary slightly from year to year, based on actual and anticipated rates of return on sinking fund assets. Sinking fund payments relating to debentures payable in foreign currency are adjusted each year, as necessary, to reflect exchange rate movements since the date of issuance of the debentures. Sinking funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2006, the estimated book value of the sinking funds was $2,092 million, of which $936 million was held in covenanted sinking funds, $854 million in the discretionary sinking fund general, and $302 million in the Public Debt

Management Fund (PDMF). The policy objectives of all discretionary funds (the Sinking Fund General and the PDMF) are to manage interest rates, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing an appropriate level of investment return to the Consolidated Fund.

The assets of the sinking funds and PDMF are invested in high-quality investments. Those investment guidelines are subject to approval by the Debt Management Committee. All assets were invested either in federal or provincial debt obligations or in short-dated corporate holdings with a minimum AA rating. The PDMF is typically invested in Government of Canada and provincial bonds. Cash and equivalents in the sinking fund and PDMF are 8.3 per cent of total assets.

The Nova Scotia Municipal Finance Corporation (NSMFC), a provincial Crown corporation, acts as a central borrowing agency for municipalities and municipal enterprises in Nova Scotia. Under the incorporating legislation, municipalities and municipal enterprises are required to raise their long-term capital requirements through the NSMFC except for borrowings from the federal government, the province, another municipality, or their agencies. The NSMFC issues serial debentures to fund these cash requirements. There has never been a default by the NSMFC on any of its obligations.

In recent years, the province has purchased most of these issues in their entirety and at March 31, 2006, held a portfolio of $600.3 million NSMFC debentures in the provincial Consolidated Fund. However, the Halifax Regional Municipality for the purposes of the Harbour Solutions Project has $66.8 million on deposit with the Department of Finance, and as such, the net amount of NSMFC borrowing is only $533.5 million. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and Public Debt Management Fund, are netted against the gross financial market debt of the province to arrive at net debt.

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Debt-Servicing Costs

Gross debt-servicing costs comprise the following items: (1) interest on existing long-term debenture debt and the estimated interest cost of incremental borrowing; (2) interest on other long-term debt that is primarily P3 capital leases; (3) general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs; and (4) the accrual of interest of the province's unfunded pension and retirement benefit obligations. As noted above, the province has established mandatory sinking funds on some debt issues and maintains discretionary sinking funds for liability management purposes. The interest on those sinking funds is netted against gross debt-servicing costs to arrive at net debt-servicing costs.

Schedule 15: Interest and Foreign Exchange Rate Assumptions

	Estimate 2005–06	Forecast 2005–06	Actual 31 Mar 2006	Estimate 2006–07	Estimate 2007–08	Estimate 2008–09
CAD/USD	$1.2500	$1.1936	$1.1671	$1.1765	$1.1696	$1.1696
USD/CAD	$0.8000	$0.8378	$0.8568	$0.8500	$0.8550	$0.8550
10-Year Canada	5.23%	4.03%	4.26%	4.40%	4.50%	4.50%
3-month Canada T-bill	3.01%	2.97%	3.86%	3.90%	4.00%	4.15%
3-month US T-bill	3.15%	3.67%	4.61%	4.80%	5.20%	5.25%

The interest and foreign exchange rate assumptions used to estimate net debt-servicing costs in the fiscal year are shown in Schedule 16.

Schedule 16: Projected Debt-Servicing Costs ($ millions)

	Estimate 2005–06	Forecast 2005–06	Estimate 2006–07	Estimate 2007–08	Estimate 2008–09	Estimate 2009–10
Gross Debt-Servicing Costs	1,017.1	995.1	972.4	931.8	915.2	896.2
Less: Sinking Fund Earnings	(119.6)	(123.0)	(87.8)	(95.3)	(96.8)	(101.2)
Net Debt-Servicing Costs	897.5	872.1	884.6	836.5	818.4	795.0

Debt-Servicing Costs— Assumptions and Sensitivity Analysis

Actual debt-servicing costs will vary from estimated amounts due to the dependence of debt-servicing costs on certain financial market variables and changes in the amount borrowed. Assumed levels for financial market variables are listed in Schedule 16. All assumptions are shown as average levels for the relevant fiscal year.

The sensitivity of debt-servicing costs estimates for the key variables is noted in Schedule 17.

Schedule 17: Debt-Servicing Costs—Sensitivity Analysis

Change in Financial Market Variables	Change in Debt-Servicing Costs (CAD)
1 Canadian cent change per 1 US dollar	$0.8 million
1% change in US 3-month Treasury Bill	$1.3 million
1% change in Canadian 3-month Treasury Bill	$14.1 million

Sensitivities show how much debt-servicing costs would change if a variable changed from an assumed level for a full year. For example, if the Canadian dollar were 1 cent stronger relative to the assumed level of $1.1765 for the entire period from April 1, 2006, to March 31, 2007, debt-servicing costs would decrease by $0.8 million, if all other factors held constant.

Risk Management

The Debt Management Committee (DMC), an advisory committee to the Minister of Finance, carries out the governance/oversight function for the debt management of the Province of Nova Scotia. The Debt Management Committee ensures that the province's treasury management is based on sound financial principles and is conducted in a prudent manner, balancing the costs and risks within acceptable control standards. The Debt Management Committee has responsibilities for the following key governance roles: strategic planning, risk management, internal control, and communications. These functions ensure that the governance and oversight roles of treasury management operations are independent of operational staff.

Schedule 18: Projected Borrowing Requirements ($ millions)

	Estimate 2005–06	Forecast 2005–06	Estimate 2006–07	Estimate 2007–08	Estimate 2008–09	Estimate 2009–10
Budgetary (surplus)/deficit	(63.3)	(151.0)	(71.9)	(189.0)	(207.0)	(151.1)
Net Capital Advances	64.7	43.4	82.6	65.0	65.0	65.0
NSMFC Repayments	(66.5)	45.5	(77.3)	(79.9)	(64.3)	(65.2)
NSMFC Advances for Harbour Solutions	40.2	40.2	47.9	18.9	–	–
Tangible Capital Assets: Net Cash	153.5	163.6	186.5	111.6	61.6	41.6
Teachers' Pension Plan	142.0	142.0	–	–	–	–
Offshore Offset Agreement	(830.0)	(830.0)	–	–	–	–
Other Non-Budgetary Transactions[1]	(23.0)	(12.2)	(39.2)	61.7	100.9	49.0
Cash Operating Requirements	**(582.5**	**(558.5)**	**128.6**	**(11.7)**	**(43.9)**	**(60.7)**
Cash Debt Retirement	1,596.4	1,851.4	1,121.6	611.4	287.7	676.1
Mandatory SF Income	60.2	55.7	42.7	52.9	55.4	59.1
Mandatory SF Contributions	56.7	55.6	65.6	65.6	65.6	65.6
Mandatory SF Withdrawals	(205.4)	(215.5)	–	–	–	–
Net Mandatory SF Requirements	(88.6)	(104.2)	108.3	118.5	121.0	124.8
Discretionary Fund Income	58.8	67.3	45.1	41.9	41.5	42.0
Discretionary Fund Contributions	–	110.6	–	–	–	–
Discretionary Fund Withdrawals	(644.6)	(552.8)	(375.0)	–	–	–
Net Discretionary Fund Requirements	(585.8)	(374.8)	(329.9)	(41.9)	41.5	42.0
Total Requirements	339.5	813.9	1,028.6	760.1	406.2	782.1
Change in ST Borrowing (inc) / dec	–	117.9	(120.0)	–	–	–
Total Borrowing Requirements	339.5	931.8	908.6	760.1	406.2	782.1

1. Non-budgetary Requirements consists of the following items: foreign currency amortization, amortization of debenture discounts, pension valuation adjustment, offshore accord offset monies, Sysco pension and environmental costs.

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Schedule 19: Projected Gross and Net Debt ($ millions)

	Actual 2004-05	Estimate 2005-06	Forecast 2005-06	Estimate 2006-07	Estimate 2007-08	Estimate 2008-09	Estimate 2009-10
Gross Debt							
Opening Balance	13,898.7	13,216.1	13,216.1	12,077.4	11,997.3	12,136.6	12,255.2
Borrowing Program	535.8	339.5	931.8	908.6	760.1	406.2	782.1
Debt Retirement	(1,408.9)	(1,596.4)	(1,851.4)	(1,121.6)	(611.4)	(287.7)	(676.1)
Foreign Exchange (Gain)/Loss	(178.7)	71.6	(101.6)	12.7	(9.3)	–	–
Change in Other Unfunded Debt[1]	369.3	–	(117.5)	120.0	–	–	–
Closing Balance	13,216.1	12,030.8	12,077.4	11,997.2	12,136.6	12,255.2	12,361.3
Mandatory Sinking Funds							
Opening Balance	979.9	1,068.4	1,068.4	936.2	1,044.8	1,162.9	1,283.9
Installments	71.5	56.7	55.6	65.6	65.6	65.6	65.6
Earnings	64.7	60.2	55.7	42.7	52.9	55.4	59.1
Foreign Exchange (gain)/loss	(47.7)	21.2	(28.0)	0.2	(0.3)	–	–
Sinking Fund Withdrawals	–	(205.4)	(215.5)	–	–	–	–
Closing Balance	1,068.4	1,001.0	936.2	1,044.8	1,162.9	1,283.9	1,408.7
Discretionary Funds							
Opening Balance	1,931.7	1,531.0	1,531.0	1,156.1	826.2	868.2	909.6
Installments	–	–	110.6	–	–	–	–
Earnings	99.3	58.8	67.3	45.1	41.9	41.5	42.0
Fund Withdrawals	(500.0)	(644.6)	(552.8)	(375.0)	–	–	–
Closing Balance	1,531.0	945.2	1,156.1	826.2	868.2	909.6	951.7
NSMFC Assets							
Opening Balance	437.6	447.8	447.8	533.5	504.1	443.1	378.8
Repayments	(50.5)	(66.5)	(66.5)	(77.3)	(79.9)	(64.3)	(65.2)
Advances	57.7	–	112.0	–	–	–	–
Net Advances to Harbour Solutions	3.0	40.2	40.2	47.9	18.9	–	–
Closing Balance	447.8	421.5	533.5	504.1	443.1	378.8	313.6
Net Debt	10,168.9	9,663.1	9,451.5	9,622.0	9,662.4	9,682.9	9,687.4

1. The Change in Other Unfunded Debt arises due to the province's use of accrual accounting for budgetary purposes, and net debt is a cash debt concept. As such, balance sheet items such as accounts payable and accounts receivable have an impact on the level of Consolidated Fund cash.

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Schedule 20: Projected Net Direct Debt ($ millions)

	Actual 2004-05	Estimate 2005-06	Forecast 2005-06	2006-07	2007-08	2008-09	2009-10
Opening Balance	**12,327.8**	**12,381.2**	**12,308.4**	**12,321.0**	**12,435.6**	**12,358.2**	**12,212.8**
TCA	248.4	280.0	290.4	335.0	280.0	250.0	250.0
Less: Amortization	(113.5)	(126.5)	(126.8)	(148.5)	(168.4)	(188.4)	(208.4)
Consolidated Entities – Net Capital	11.0	0.0	0.0	0.0	0.0	0.0	0.0
Surplus per Debt Reduction Plan	(165.3)	(63.3)	(151.0)	(71.9)	(189.0)	(207.0)	(151.0)
NDD – Closing Balance	**12,308.4**	**12,471.4**	**12,321.0**	**12,435.6**	**12,358.2**	**12,212.8**	**12,103.4**

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